HOUSING ACCELERATOR FUND

Expanded Deliverables – MOHCD Project Grant 138924-19

Scaling Impact of Acquisition and Preservation Programs

submitted 2/4/2022

Summary

Through an "Innovation Grant'' NOFA, MOHCD funded HAF, MEDA, and Forsyth Street to explore paths to sustainably scaling up the Small Sites Program. MOHCD also commissioned HAF and CHPC to create a market data tool that provides the real-time market information necessary to making informed preservation investment decisions. In addition, HAF created an "Intake Form" and an "SSP Budget Tool'' to facilitate quick initial reviews of incoming individual projects (the Intake Form) and MOHCD's future planning, from both a budget and units-preserved perspective (the SSP Budget Tool). Finally, HAF, in collaboration with its Housing Preservation Lab partners, prepared an overview presentation for MOHCD that incorporates all of the work described above and sets the stage for policymakers' and developer partners' further discussions and decision-making regarding preservation program changes and improvements.

The principal, overarching goals of the City's anti-displacement program drove the focus of the Innovation Grant analysis, i.e., HAF and its partners were guided by these underlying questions: *How best can the City* 1) protect vulnerable residents; 2) broaden the reach of the program into every City neighborhood; 3) enhance cost-effectiveness so that every City dollar spent has the greatest impact possible; and 4) assist CBO partners to sustainably participate in the program without incurring financial organizational risk. This effort highlighted some inherent trade-offs in implementation, such as the fact that protecting extremely low-income, vulnerable residents isn't always compatible with cost-effectiveness. Or, for example, the fact that different neighborhoods' different building typologies (e.g., small vs. large; high acquisition cost vs. high rehab need) may demand different approaches to preservation. The analysis of what CBOs need to sustainably participate highlighted similar tensions: CBOs with larger existing portfolios are primed to take advantage of economies of scale in operations, while the financial risks development poses may mean "start-up" CBOs are best suited for community engagement work given the current total annual subsidy funding allocations available.

In sum, anti-displacement preservation requires clear policy articulation and decision-making. This report identifies the issues, quantifies the trade-offs, and presents options for program expansion that can follow the City's and its partners' prioritization of policy goals.

TABLE OF CONTENTS

Small Sites Program Expansion

As Presented to MOHCD & Partners - January 2022

Small Sites Program | Projects to Date

Spurred by community advocacy, the Small Sites Program (SSP) launched as a $3M preservation pilot program in 2014.

Today, SSP:

- Protects San Francisco residents with the widest range of incomes of any City housing program: extremely low-income tenants live side-by-side with middle-income tenants whose higher rents stabilize building operations and make possible very low rents for more vulnerable households
- Offers a national model for anti-displacement in high-cost and rapidly gentrifying areas
- Engages a collaborative ecosystem of practitioners (Peer Preservation Learning Forum > Housing Preservation Lab)
- Provides critical investments in community organizations at various stages of growth, but all of which provide vital community advocacy and assistance

369 3rd Ave / MEDA

568 - 570 Natoma / SFCLT

The Small Sites Program has had meaningful impact on SF residents and neighborhoods

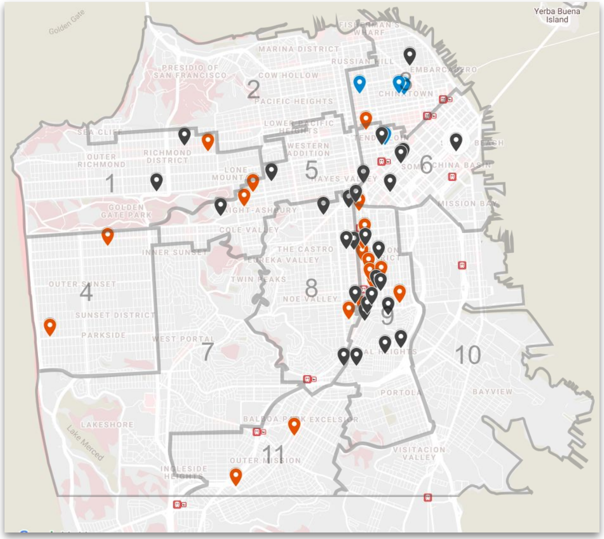
53

Projects (All SSP)

655

Units (All SSP)

SF Preservation | Map of SSP Projects to Date



ANTI-DISPLACEMENT BRIDGE LENDING
HAF Financed Big Sites (25+ units)

1	937 Clay St	CCDC	07/16/18	$11.6M
2	270 Turk St	TNDC	03/15/19	$24.9M
3	1535 Jackson	CCDC	05/09/19	$7.2M
4	1005 Powell	CCDC	12/27/21	$16.1M

ANTI-DISPLACEMENT BRIDGE LENDING
HAF Financed Small Sites (5-25 units)

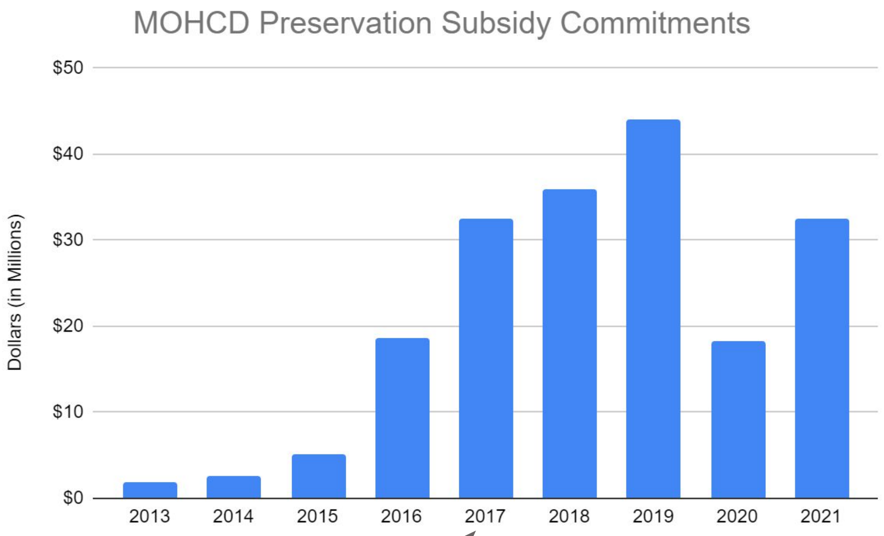
1	1411 Florida	MEDA	05/24/17	$3.3M
2	305 San Carlos	MEDA	10/31/17	$5.7M
3	60 28th St	MEDA	12/04/17	$2.9M
4	2093 Mission	MEDA	01/04/18	$8.8M
5	65 Woodward St	MEDA	02/22/18	$3M
6	654 Capp St	MEDA	05/30/18	$3.6M
7	4830 Mission	MEDA	07/25/18	$13.2M
8	520 Shrader	SFHDC & MEDA	05/30/19	$4.4M
9	3544 Taraval	MEDA	09/19/19	$2.5M
10	3154-3158 Mission	MEDA	09/23/19	$8.6M
11	369 3rd Ave	MEDA	11/01/19	$8.2M
12	239 Clayton	MEDA	12/23/19	$4.7M
13	3225 24th St	MEDA	01/21/20	$3.4M
14	2260 Mission	MEDA	01/31/20	$3.8M
15	3254 23rd St	MEDA	03/17/20	$4.5M
16	1382 30th Ave	MEDA	06/04/20	$1.8M
17	566 Natoma	MEDA	06/'15/20	$3.3M
18	2676 Folsom	MEDA	07/23/20	$5.5M
19	168 Sickles	SFHDC & MEDA	03/31/21	$5.7M
20	936 Geary	SFHDC & Novin	12/30/21	$9.9M

HAF Financed Key: Portfolio // Repaid

ANTI-DISPLACEMENT BRIDGE LENDING
MOHCD Sole Financed Small Sites (3-25 units)

1	462 Green Street	CCDC	6 (units)
2	800-810 Clement	CCDC	16
3	3800 Mission Street	MEDA	5
4	269 -271 Richland Ave	MEDA	6
5	344-348 Precita Ave	MEDA	3
6	35 Fair Avenue	MEDA	4
7	19-23 Precita Ave	MEDA	3
8	1500 Cortland	MEDA	4
9	3840 Folsom Street	MEDA	4
10	3182-3198 24th St	MEDA	8
11	63-67 Lapidge Street	MEDA	6
12	1015 Shotwell	MEDA	10
13	2217 Mission Street	MEDA	8
14	3353 26th Street	MEDA	10
15	380 San Jose Avenue	MEDA	4
16	642-646 Guerrero St	MEDA	4
17	3329-3333 20th St	MEDA	10
18	70-72C Belcher St	SFCLT	5
19	1684-1688 Grove St	SFCLT	3
20	Merry Go Round Hse	SFCLT	14
21	151 Duboce	SFCLT	4
22	Pigeon Palace	SFCLT	6
23	4042 - 4048 Fulton St	SFCLT	5
24	534-536 Natoma St	SFCLT	5
25	1353-1357 Folsom St	SFCLT	3
26	568-570 Natoma St	SFCLT	5
27	308 Turk Street	SFCLT	20
28	Gran Oriente Filipino Hotel	MHDC	24
29	1353 Stevenson	MEDA	7

Preservation - Subsidy Funding + Annual Acquisitions



2016 Housing Bond Funding

Significant one-time ERAF funding; plus Downtown Neighborhood Preservation Funding for 937 Clay and 270 Turk

2019 Housing Bond Funding and AAU Settlement Funds for 1005 Powell

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**	

*1 CBO listed is predominantly a larger site CDC (such as TNDC or Chinatown CDC), less reliant on acquisition fees for organizational sustainability
** 2 CBOs listed are predominantly larger site CDCs

The City provided $3.6M in capacity building grants to Small Site CBOs between 2019-2021

meda
283 UNITS PRESERVED (Total , all post- 2014)
Staffed up & has deep experience. Currently on pause, but aims to acquire 5+ projects per year.

SF CLT
91 UNITS PRESERVED (21 pre-2014; 70 post-2014)
High acquisition volume from 2013 - 2017, but little / no volume since.

BERNAL HEIGHTS Neighborhood Center
62 UNITS PRESERVED (Total, all pre-2014)
Currently re-evaluating alignment between SSP and organizational goals - on pause.

SFHDC
50 UNITS PRESERVED (Total , all post- 2014)
Staffed up & projects underway. Aims to complete 4-5 projects per year.

Westside Cohort
0 UNITS PRESERVED
Still determining best approach to grow. Aim is to scale slowly (1-2 projects per year).

YCD YOUNG COMMUNITY DEVELOPERS, INC
0 UNITS PRESERVED (Total, all pre-2014)
Limited inventory in target geography within subsidy limits. Staffed, but LIHTC project pipeline is a current focus. Interested in 1-2 projects per year.

SOMCAN
0 UNITS PRESERVED
No SSP acquisitions to date - organization still scaling.

WithOut Walls
0 UNITS PRESERVED
No SSP acquisitions to date - organization still scaling.

Additional nonprofit developers focused on preserving larger buildings are also a key part of SF's anti-displacement program

tndc HOMES. HEALTH. VOICE.
2,059 UNITS PRESERVED (1,973 pre 2014, **86 post 2014**)

Chinatown Community Development Center 華協中心
987 UNITS PRESERVED (815 pre 2014, **176 post 2014**)

MISSION HOUSING DEVELOPMENT CORPORATION
94 UNITS PRESERVED (70 pre-2014, **24 post-2014**)

Purpose of this analysis:

Through an “Innovation Grant” NOFA, MOHCD funded HAF, MEDA, and Forsyth Street to explore paths to sustainable scaling up the Small Sites Program.

In this project, we explored the housing landscape, CBOs’ current capacities, desires for growth, and several potential pathways to a collective “scaling up.”

Preservation 2.0 | Summary of City Stated Program + Policy Goals

A successful citywide anti-displacement preservation program will balance many priorities

- Be comprehensive in building type and neighborhood representation
- Protect vulnerable populations
- Maximize residents and units protected for highest impact of City investment
- Support a sustainable Community Based Organization (CBO) ecosystem

San Francisco faces ongoing loss of affordable units

Our Challenge: The Housing Balance Report shows a loss of ~400 protected units annually (through owner move-ins (OMIs), Ellis Act evictions, demolition, etc).

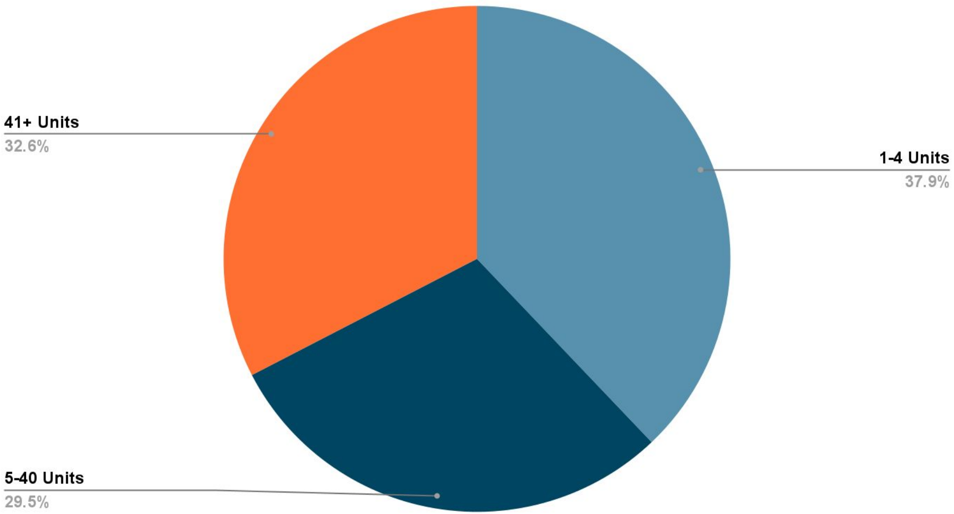
MOHCD promotes housing stability and combats displacement by funding both Tenant Protection and Housing Preservation Programs. These eviction protection and housing stabilization programs include:

- Tenant Right to Counsel
- Tenant Counseling, Education & Outreach
- Tenant-Landlord Mediation
- Direct Financial Assistance
    - Emergency Rental Assistance
    - Ongoing Tenant-Based Subsidies
- Preservation Through Acquisition + Rehabs

Acquisition / Rehabilitations are a key tool in the City's anti-displacement efforts

Vulnerable residents live in every neighborhood in all types of buildings.

San Francisco Renter Occupied Housing Units (Total: 230,000)



A comprehensive preservation program should reach residents in all building types around the City:

- **5-40 unit buildings**: as "small sites" which tend to function similarly for financing and operations
- **40+ unit buildings:** Largely SROs and large multifamily buildings, critical VLI housing stock and homelessness prevention
- **1-4 unit buildings:** For an area of further innovation and exploration

Sources: SF Planning Housing Inventory Report 2020, US Census Bureau, American Community Survey 2019 1-Year, CoStar

Small Sites Program | Project Subsidy Drivers

Balancing protection for vulnerable populations, geographic equity, and program financial sustainability creates tradeoffs

HIGH SUBSIDY

LOW SUBSIDY

168 Sickles Ave
SFHDC | 12 units
Oceanview
$210K/ unit

- 65% Average AMI of existing tenants
- Excelsior: moderate acquisition price (320K per unit)
- Working-class residents: restaurant staff, construction, and hospitality

936-940 Geary
SFHDC & Novin
31 units
Tenderloin
$240K / unit

- 51% Average AMI of existing tenants
- Tenderloin: Low acquisition price ($186K per unit)

1382 30th Ave
MEDA | 4 units
The Sunset
$350K/ unit

- 72% AMI of existing tenants
- Moderate acquisition cost ($370K per unit)
- Minimal building rehab needs

520 Shrader
SFHDC | 7 units
The Haight
$420K / unit

- Long-term low-income seniors facing eviction
- D5 (Lower Haight): high building acquisitions cost ($485K per unit)
- Intensive rehab needs

239 Clayton
MEDA | 6 units
North Panhandle
$460K / unit

- 4 senior long-term Black residents facing eviction
- D5 (NoPa): high building acquisition cost ($500K /unit)
- High development cost: ADUs

566 Natoma
MEDA | 5 units
SoMa
$610K / unit

- Unit reconfigurations to accommodate family needs for longterm Filipino residents
- Liquefaction zone; extensive building needs
- Modest acquisition price [$360K per unit]

DRIVERS

- Higher existing tenant average AMIs at 65%+; target 80% AMI average over time
- Lower acquisition and rehab costs

- Lower avg. AMIs <45%
- Higher rehab needs and acquisition costs
- ELI/VLI SROs not only can't support debt, they may also require operating subsidies

Big Sites Preservation | Project Subsidy Drivers

Most 40+ unit buildings with at-risk residents are historic SROs or studio buildings, which require high rehab needs including structural. Residents are also often lower income than Small Site program averages.

HIGH SUBSIDY

1005 Powell
Chinatown CDC
64 units
Chinatown

$330K / unit
+55% units with SOS rental subsidy
+ 20 yr sinking fund

- 20 year operating subsidy required ~$3M
- Very significant rehab and relocation expenses

Pending: Prop C SRO
In Negotiations
114 units, all private baths
Western Addition

$450K / unit
Assuming 50% AMI rents and no mortgage debt. Lower subsidy possible if debt is supportable with lower operating costs

- Requires structural upgrades, accessibility and systems improvements
- Acquisition at $230K/unit

937 Clay
Chinatown CDC
73 units
Chinatown

$160K+ / unit

- Very minimal rehab completed
- Moderate acquisition price ($135K per unit)
- Subsidy expected to increase based on lower AMIs and recapitalizing reserves

270 Turk
TNDC | 86 units
Tenderloin

$220K / unit*
+28% units with HSH rental subsidy

- TNDC plans to undertake more significant rehab with tax credits in the future
- Lower subsidy partially due to operating contract for PSH units
- High acquisition price ($239K per unit)

LOW SUBSIDY

DRIVERS

- Higher average AMIs ~60%
- Lower acquisition and rehab costs

- Lower avg. AMIs <45%
- Higher rehab needs and acquisition costs
- ELI/VLI SROs not only can't support debt, they may also require operating subsidies

Sample Program Approach A

If the City wants to annually support:

1 Big Site / SRO Acquisition
~60 units total
(@ $375,000 per unit subsidy)

+

10 Small Sites Acquisitions
~60 units total

with <u>half</u> of the projects requiring higher subsidy (more vulnerable population / higher cost)
(@ $265,000 per unit subsidy for standard projects; $500,00 per unit for vulnerable tenants)

Total Required City Subsidy = $45 M / year

Sample Program A: Small Site CBO Sustainability Implications

1 Big Site / SRO Acquisition
~60 units total
(@ $375,000 per unit subsidy)

Existing "Big Site" CBOs have larger portfolios and rely less on new projects for sustainability

+

10 Small Sites Acquisitions
~60 units total

+ $

2 Small Sites CBO Developers (Max.)*
Supported

Resident Engagement CBOs
Funded with ongoing capacity grants OR with new project-specific fees for resident engagement role

- "Scaling" and "Scaled" CBOs may need to acquire 6+ Small Sites projects a year to be self-sustaining: the developer fees and residual receipts generated through new projects support staffing necessary to asset manage prior acquisitions over the long term.
- "Start Up" CBOs: These organizations are likely to acquire only 1-2 projects per year; capacity building grants are necessary to break-even financially.

Analysis assumes the following to better support Small Sites CBOs upfront and over time:

- **Increased Asset Management Fees**
- **Increased residual receipts (through higher DSCR on PASS loan)**
- **Increased Developer Fees**

- Small Sites projects lack economies of scale, resulting in tight cash flows and a limited ability to absorb operating expense challenges (e.g., extended vacancies or large insurance increases).
- Annual Small Sites funding hasn't historically supported more than two active CBO developers. Broadened CBO engagement will require consistent, ongoing capacity grants. Alternatively, additional fees included in project budgets could support neighborhood-based CBOs as tenant outreach and community engagement partners.

Sample Program Approach B

If the City wants to annually support:

2 Big Site / SRO Acquisitions
~120 units total
(@ $375,000/unit)

+

15 Small Sites Acquisitions
~90 units total

with <u>half</u> of the projects requiring higher subsidy (more vulnerable population / higher cost)
(@ $265,000/unit standard projects; $500,00/unit vulnerable tenants)

Total Required City Subsidy = **$80 M / year**

3 Small Sites CBOs (Max.)

New COVID-era Challenges to Preservation

- Residential and Commercial market softening
- Global supply chain issues affecting construction
- Protecting the health of residents, property managers, and construction workers
- High vacancies and lease up challenges (particularly in SROs)
- Organizational capacity constraints

Preservation 2.0 | Summary of Operating Recommendations

01	Streamline Application Process
02	Expedite Execution
03	Ensure Project Sustainability
04	Support Sponsor Capacity Building
05	Contain Program Costs & Secure Permanent Funding

Small Sites Program:
Scaling Impact of Acquisition and Preservation Programs

prepared by
Housing Accelerator Fund, Forsyth Street Advisors, Mission Economic Development Agency

prepared for
Mayor’s Office of Housing and Community Development

October 2021

Table of Contents

Small Sites Program: Scaling Impact of Acquisition and Preservation Programs

Report Objectives

The Small Sites Program (Program) protects and preserves long-term affordable housing in smaller properties in the City that are vulnerable to market pressures resulting in rising tenant rents, increased evictions, and property sales. The need to preserve more affordable housing and protect at-risk tenants from displacement is as pressing as ever, and as the developer community expands to include more local, non-profit community-based organizations (CBOs), it is imperative that the Program scale up thoughtfully, in a way that positions CBOs to have the right capacities to implement the Program and sustains the Program's long-term operational and financial health.

In March 2020, the San Francisco Housing Accelerator Fund, in partnership with Mission Economic Development Agency and Forsyth Street Advisors (together, the Team), were awarded a program innovation grant for "Scaling Impact of Acquisition and Preservation Programs" by the City and County of San Francisco's Mayor's Office of Housing and Community Development. Specifically, the Team proposed to look at three program models that could expand the Small Sites Program's geographic reach and ensure the long term operational and financial health of CBOs and their portfolios:

1. CBOs continue to work independently, with an emphasis on capacity building;
2. Consolidate certain roles with one or a few CBOs and coordinate those roles across all CBOs; and
3. Creation of a joint entity.

This report summarizes the Team's findings including an assessment of existing CBO capacity, constraints impacting the Program's ability to scale, and potential next steps for each model; along with technical recommendations including changes to MOHCD Program Guidelines that can assist in supporting the long term financial health and sustainability of the Program.

Program Snapshot

Six non-profit community-based organizations and one private developer have participated in the Program since its inception in 2013, with a total of 655 units in 53 small sites (<25 units) and big sites (>25 units) buildings acquired as of February 2022. Other CBOs are building capacity to enter the market but have not acquired any properties, due to a combination of capacity constraints, insufficient funding, and/or lack of market opportunities. Figure 1 below is a list of the CBOs along with MOHCD grants awarded in 2020 to further build organizational capacity. Figure 2 below shows the distribution of Program units and projects by lender (MOHCD or HAF) and by CBO.

Figure 1: All Preservation (since 2013)

CBO	Residential Units Acquired	Properties Acquired	Notes	Capacity Building Grants	Grant Term
Small Sites Acquired by CBOs since 2013					
Mission Economic Development Agency (MEDA)	243	34	199 units completed, 37 in rehab + 7-unit JV with SFHDC	$500,000	3 Years
San Francisco Housing Development Corporation (SFHDC)	50	3	31 units in rehab and 19 completed. 1 independent project, 2 JVs (MEDA and NDC)	$475,000	3 Years
San Francisco Community Land Trust (SFCLT)	70	10	Acquired Small Sites from 2013-2017; strategic planning underway in 2021 to determine whether to re-enter market.	$475,000	3 Years

Young Community Developers (YCD)	0	0	Developing capacity to co-develop LIHTC properties and Small Sites. Strategic planning underway in 2021. New hire of a Community Engagement Specialist. Estimates it has the capacity to acquire 1 site per year but is not seeing market opportunities.	$400,000	3 Years
Bernal Heights Neighborhood Center (BHNC)	0	0	Owns 7 properties < 25 units from prior programs in 90's, and is owner/co-GP on at least 7 larger properties. Strategic planning in 2021 to determine whether to enter market. Project Manager departed in 2021.	$150,000	1 Year
South of Market Community Action Network (SOMCAN)/Bill Soro Housing Program (BISHOP)	0	0	Received a grant after the initial awards to develop a business plan	$97,000	1 Year
Without Walls (WW)	0	0	Received a grant after the initial awards to develop a business plan. YCD may support Without Walls as fiscal agent in District 5.	$97,000	1 Year
The Richmond Neighborhood Center (RNC)/ Sunset Youth Services (SYC)/ Wah Mei School (WMS)/ Community Youth Center of SF (CYC)	0	0	Determining role in Westside expansion with MEDA assistance	$40,000	
Subtotal	**363**	**46**			
All Preservation by Larger Community Development Corporations (Large + Small) since 2013					
Chinatown Community Development Center (Chinatown CDC)	189	5	3 small sites, and 2 sites over 30 units. Focus is on larger LIHTC projects, possibly Westside property management.	$750,000	3 Years

6

Tenderloin Neighborhood Development Corporation (TNDC)	86	1	Focused on larger sites (preservation + new construction); 1 86 unit preservation project in 2018.	N/A	N/A
Novin Development Corporation (NDC)	31	1	Private affordable housing developer. JV partner with SFHDC on 31 unit property.	N/A	N/A
Mission Housing Development Corporation (MHDC)	24	1	Acquired a 24-unit building in SOMA in 2018.	N/A	N/A
Subtotal[1]	**330**	**8**			
TOTAL[2]	**655**	**53**			

Figure 2: Small Sites Portfolio as of February 2022 (Detailed portfolio list included in the Appendix.)[3]

	Units	Projects			Units	Projects
HAF Bridge Loan to MOHCD Perm	190	20		MEDA[4]	236	33
MOHCD Sole Financed	212	29		SFCLT	70	10
Total	**402**	**49**		CCDC	**22**	**2**
				SFHDC[5]	**50**	**3**
				MHDC	**24**	**1**
				Total	**402**	**49**

[1] Includes duplicate project (936 Geary, JV partnership between NDC and SFHDC).
[2] Eliminates projects duplicated in subtotal count due to JV partnership structure.
[3] Figure 2 does not include larger sites listed in Figure 1.
[4] Excludes 7-unit JV with SFHDC.
[5] Includes 31-unit JV with NDC.

CBO Approach to Scaling

For most CBOs awarded MOHCD Capacity Building Grants, part of their scope is to develop organizational capacity over the next 1-3 years (calendar years 2021-2023), and, for some, to develop a strategic plan for growth. WW and SOMCAN are developing business plans in 2021.

Forsyth Street and MEDA met with SFHDC, SFCLT, YCD and BHNC between December 2020 and February 2021 to discuss organizational readiness via an assessment tool submitted to MEDA and a four-year growth plan via a scaling model. Separately as part of the Westside Initiative project, MEDA met with four Westside CBOs: Wah Mei School, Sunset Youth Services, Community Youth Center and the Richmond Neighborhood Center to also assess organizational readiness. Figure 3 summarizes the organizational "readiness" of each CBO to participate in the Program.

Figure 3 Organizational Readiness - Summary of Assessment

Stage 1:	**Stage 2:**	**Stage 3:**	**Stage 4:**	**Stage 5:**
Early organizational development: cohort or peer learning	Early formation of real estate program. May JV.	Established real estate program: 1-2 properties pending. May have share of ownership w/ JV.	Portfolio of 1-2 properties, regular pipeline. Moving to sole ownership.	Portfolio of 10+ properties, regular pipeline. Sole ownership.
Westside	YCD	SFHDC		MEDA
WW, SOMCAN*	BHNC**	SFCLT **		

* WW and SOMCAN to complete MEDA Readiness Assessment
**SFCLT and BHNC between Stage 2&3 - have existing assets, determining future growth
CCDC and TNDC are currently prioritizing larger sites

Additional findings with respect to each of the CBOs' organizational readiness are as follows:

- The four **Westside** CBOs are in Stage 1 and are working collectively to determine the right path for housing development in the Westside. This may include one or all CBOs working together to address required development and asset management capacities, or alternatively an existing outside CBO expands to the westside. In either scenario, due to limited capacity, we expect acquisition of Westside properties to scale slowly at 1-2 projects per year. (See Westside Collaboration Model section below.)
- **YCD** is in Stage 2 and is actively looking for projects, but has found little inventory available in their target neighborhoods, or at prices that are financially feasible. YCD has 2 project managers and is hiring a community engagement specialist. They hope to acquire 1-2 projects per year in the first few years.
- **SFCLT** and **BHNC** are doing strategic planning with their grants over the next year. While we will not know their complete plan until later in 2021, initial conversations suggest that the organizations are being thoughtful and strategic in determining whether participation in the Program makes economic sense for their organizations. If they do decide to move forward with Program participation, each organization would likely seek to acquire properties at a pace of 1-2 projects per year in the first few years. Because SFCLT has existing small properties in their portfolio that they continue to manage, and BHNC has assets from a prior program, they were rated between a Stage 2 to 3.
- **SFHDC**, a Stage 3-rated CBO, has a goal of completing 4 to 5 projects per year. At this pace, they will aim to be profitable without the use of grants long term, but at minimum hope to be breakeven. While this may be aggressive in the next 1-2 years, it exhibits their investment in and commitment to the Program. At the time of initial interviews, SFHDC anticipated hiring a Program-focused staff of a minimum 5: 2 project managers, 1 asset manager, 1 community engagement specialist, and 1 accountant, and acquiring projects through a joint venture with MEDA. Since then, SFHDC has brought on 2 project managers, 1 of whom is dedicated to SSP, and 1 asset manager. This joint venture has allowed SFHDC to gain experience participating in the Program despite not having all the capacities required to complete a project. Construction management would be outsourced to start.

- **MEDA** is the most developed of the CBOs reviewed and is Stage 5-rated. MEDA's Program staff includes 8 individuals: 4 project managers, 2 construction managers, and 2 asset managers. In 2020, MEDA acquired 6 properties totaling 37 units including to-be-built ADUs, with over 200 residential units plus 32 commercial units under management. However the COVID pandemic has softened rents and increased vacancies, and MEDA is currently focused on strengthening its existing portfolio.
- **CCDC** and **TNDC**, two of the more established affordable housing developers, have chosen to prioritize LIHTC developments and larger acquisition sites (>25 units) in their core neighborhoods partly because they are more cost effective to own and operate, can be more profitable from a developer fee standpoint, and are aligned with their neighborhood and impact goals.

Westside Collaboration Model

Development and preservation has scaled at a slower pace in the Westside neighborhoods compared to elsewhere in the City. As a way to help identify and mitigate barriers for scaling the Program, as well as to help build capacity and strategize how existing organizations in the Westside can support greater development and preservation, MEDA has been regularly meeting with a cohort of four Westside-based CBOs to identify and discuss ways in which these organizations can collaborate and grow to better serve affordable housing development and preservation in the Westside.

Under a separate NOFA, MEDA was awarded a 1-year grant to support the growth, expansion, or creation of a Westside-based CBO for the Richmond and Sunset districts. The four non-profits MEDA has been working with on this effort are:

1. Richmond District Neighborhood Center
2. Sunset Youth Services
3. Wah Mei School
4. Community Youth Center of San Francisco

While all these organizations have experience supporting youth and families, they do not have housing development and asset management experience. However, they recognize the importance of affordable housing and preservation in their communities and are committed to finding a development solution for the Westside. With MEDA, these CBOs are investigating how they can collectively support greater development and preservation in the Westside, and how to best support this work from an organizational perspective. Potential methods for creating and implanting these efforts include:

- Create a joint venture between the four CBOs where each CBO has a distinct role for executing development and asset management capacities, allowing each organization to focus on building a distinct capacity and save organizational staffing costs;
- Support a single Westside CBO taking on development and asset management with advocacy input from a Westside housing coalition led by the four CBOs;
- Collectively form a new CBO separate from the four Westside organizations and build all necessary development and asset management capacity within that organization;
- Support an existing external CBO that will commit to expanding to the Westside; or
- Support one project manager amongst the CBOs and enter into a joint venture with an experienced Program CBO, such as MEDA. As the joint venture completes 2 projects over a 3-to-5-year period and the cohort gains development experience, MEDA would transition those properties along with 3 existing Westside properties currently owned by MEDA to the cohort to own and operate over the long term. The local Westside CBOs would be responsible for the ongoing oversight of the properties, and the experienced CBO can continue to focus on its more local neighborhood roots. This cohort ownership is a creative example of a "joint entity" concept described in the next section.

Although a plan has not been finalized, the four CBOs have a strong desire to work toward a solution that keeps the cohort working together collaboratively on housing development. So far, these organizations have been participating in housing development trainings and regular meetings with MEDA, and trainings with Planning and MOHCD hosted by the District 4 Supervisor's office. The Westside cohort may need financial support to hire a lead project manager for this effort. There will also need to be funding for ongoing business planning, financial modeling, technical assistance and legal consultation to provide input into various structural options that are under evaluation.

Constraints on Program Scale to Date

The Team finds that key constraints on the scale achieved by the Program to date include: (I) the availability of certain capacities at the CBO level; (II) the availability of Program funding; and (III) supportive market dynamics. While the CBOs are able to control some of the variables, others require the CBOs to adapt their business model and strategies in order to continue to pursue Program participation, or may require City action.

	Constraint	Issue Summary
I	CBO Capacities	• Project managers may oversee 1-3 projects at a time and it takes time to gain experience; PMs have the same project capacity whether those projects are small or large. • In addition to PM, additional organizational capacities also need to be developed and supported. • **The Team estimates CBOs need ~90 units under management and 4-6 new acquisitions per year (24-36 units) to run sustainably on project fees without ongoing grants.**
II	Program Funding/Subsidy Availability	• We assume $30 million in annual available Small Sites Program subsidy (5-40 unit buildings). Additional funding could be dedicated to SRO/Big Site acquisitions (>40 units). • At $375k in average subsidy per unit and 6 units on average per project, $30 million yields 80 units in approximately 13 projects. • Key drivers in subsidy per unit include resident rents, acq/rehab costs, and geography. • **$30M/year can support 2-3 Small Sites CBOs through purchases of 3-6 projects every year, though smaller CBOs will still need to rely on grants to be sustainable.**
III	Market Opportunities	• There is a limited number of buildings for sale in certain geographies that fit within Program guidelines. • **For Program sustainability, each participating CBO's acquisition footprint needs to consistently provide a minimum of 4-6 viable acquisition opportunities each year.**

Key Constraint I: CBO Operational and Financial Capacities

The Program depends on CBOs to identify, acquire, own, and manage properties and imposes significant upfront and long-term costs on each participating organization. Small Sites properties are extremely involved and require various capacities to oversee the projects from acquisition through rehabilitation and to asset management. As a result, it can be both costly and time-intensive for an organization to reach a point at which they are able to provide all these capacities in-house, while maintaining a large enough portfolio that is self-sustaining. To reach this point of self-sufficiency, organizations either require additional grant funding, larger developer fees, or require that another business line or revenue source cross-subsidize their Small Sites business. The CBOs reviewed for this Report are in various stages of their organizational development - most are relying on continuing grant funding as they complete strategic assessments and planning, and while some have preserved units, none have Small Sites portfolios that are completely financially self -sustaining.

CBO capacity is unevenly distributed across the City, amplifying the challenge of implementing the Program across all neighborhoods. CBOs will ideally be deeply rooted in the communities they serve and have the development capacity to undertake participation in the Program. Several neighborhoods, such as the Mission (MEDA) and Chinatown (CCDC), have CBOs which meet these criteria, and they have comprised the bulk of Program activity to date (though CCDC participation in the Program to date has focused on larger sites, with two properties comprising 103 residential units). In other neighborhoods, such as across the Westside, Program uptake will lag until organizations that have both community connections and development capacity emerge. Development capacity can also fluctuate as CBOs seek to hire, train, and retain staff with development expertise, CBOs' internal reprioritization of staffing "graduates" experienced project managers to larger sites, or specialized staff at CBOs leave to join other organizations not currently able to or interested in participating in the Program.

<u>We estimate that a small property portfolio can begin to generate sufficient revenue and "breakeven" to cover associated costs at about 90 units under management if the CBO also continues to acquire 4 to 6 new properties (24-36 units) a year</u>, allowing them to earn both a share of residual receipts from operating properties and developer fees from new acquisitions, while maintaining a lean staffing model. However, this baseline can vary significantly depending on the characteristics of individual buildings, the physical proximity of portfolio buildings to each other, organizational overhead and capacity, and other factors. From a CBO's staffing perspective, the economics of Small Sites properties improve once 1) project managers have the experience and capacity to work on multiple projects at once, thereby generating multiple developer fees, and 2) existing assets generate sufficient residual receipts and asset management fees to help cover ongoing operations.

Until this scale is achieved, CBOs need to have other resources, such as capacity building funds from MOHCD, other grant funding, or revenues from another business line, available to subsidize their participation in the Program. A comparison of operating costs for the Program property portfolio with similarly-scaled, for-profit held multifamily rental property portfolios show that, with some exceptions, Program properties are operating with largely similar expense profiles. This indicates that achieving self-sufficiency depends more on bringing in additional units with additional rental revenue and developer fees that can offset organizational overhead than reducing property-level operating costs. It also requires organizational focus on the Program so that both staff and the long-term health of the portfolio are supported and prioritized within the organization. We estimate that well-operated, stabilized properties currently can generate about $850 per unit per year in residual receipts income for their sponsor CBO to support ongoing organizational overhead, though this estimate is expected to have decreased during the COVID-19 pandemic due to reduced payments from commercial and residential tenants and declining rents on vacant units in some neighborhoods.

Figure 4 below is a sample Staffing Model showing the economics of a “Start Up” CBO vs a “Breakeven” and a “Scaled” CBO. The Start Up CBO cannot support the Small Sites business line without capacity building grants from MOHCD or outside funders or revenue from other business lines. The Breakeven CBO can cover its costs if it operates leanly but is not generating significant profit. The Scaled CBO becomes profitable as existing assets (if operated properly) generate residual receipts, and staff capacity and expertise has reached a point where it can generate sufficient developer and asset management fees. Higher per unit developer fees, or additional fees for specific services, would also help organizations become profitable faster, however the tradeoff is the project will then require a higher per unit MOHCD subsidy which is already constrained. For a Start Up CBO to scale, we estimate a CBO needs $500,000 or more in grants over 5 years to build capacity. Most of the CBOs received MOHCD grants in 2020 to develop a business plan and cover 1 to 3 years of capacity building. To thereafter be self-sufficient annually without grants, we estimate a CBO would need approximately 90 units under management and be acquiring new units at a pace of approximately 30 new units per year. Although a CBO might breakeven on their costs by acquiring fewer units a year, it is imperative to have organizational focus on the Program so that both staff and the long-term health of the portfolio are supported within the organization.

This model to reach self-sufficiency is highly dependent on how properties in each CBO’s small sites portfolio are performing. In order to gauge how properties across these portfolios were performing, the Team reviewed property level operations via CBOs’ submitted Asset Management Reports to identify the discrepancies across organizations and identify areas for improvements that could be made at the project level to support these properties operating more efficiently, which could translate to increases in net operating income and help to ensure the long-term sustainability of the properties. For more detail on the CBOs' property operations, please see **Appendix B**.

Figure 4: Staffing Chart

Project Details	Start Up Organization with Capacity Building via JV				Breakeven/Scaling Organization		Scaled with Ongoing Developments	
Properties Acquired Annually	1		2		6		9	
# of Units Acquired	6		12		36		54	
# of Existing/Operating Units					90		283	
Average Project Timeline	18 months		18 months		18 months		18 months	
Income								
Grants / Other Income	$0		$0		$0		$0	
Developer Fee	$93,333		$186,667		$560,000		$840,000	
Joint Venture Dev Fee Share	($46,667)		($93,333)		$0		$0	
Construction Management Fee	$17,000		$34,000		$102,000		$153,000	
Asset Management Fee	$7,560		$15,120		$158,760		$424,620	
Property Management Fee	$0		$0		$0		$0	
Project Revenue from Residual Receipts					$54,000		$169,800	
Total Income	**$71,227**		**$142,453**		**$874,760**		**$1,587,420**	
Direct Expenses								
Staffing		**Staff Count**		**Staff Count**		**Staff Count**		**Staff Count**
Project Managers/Supervisor	$90,000	1	$180,000	2	$285,000	3	$380,000	4
Construction Managers	$24,000	3rd party	$36,000	3rd party	$90,000	1	$90,000	1
Asset Managers	covered by PM	0	$22,500	0.25	$180,000	2	$360,000	4
Accountants		0		0	$90,000	1	$180,000	2
Property Managers	hired externally		hired externally		hired externally		hired externally	
Resident/Community Relations	none or by grants		none or by grants		none or by grants		none or by grants	
Employee Benefits (Ins., Health, etc)	$28,500	25%	$59,625	25%	$138,750	25%	$252,500	25%
Operating Support/Overhead/Supplies	$45,000	39%	$56,250	24%	$87,500	14%	$137,500	14%
Total Small Sites Staff	**$187,500**	1	**$354,375**	2.25	**$871,250**		**$1,400,000**	
(Deficit)/Surplus	-$116,273		-$211,922		$3,510		$187,420	
Additional Developer Fee of $25k/project	$12,500	1/2 in JV	$25,000	1/2 in JV	$150,000		$225,000	
Net (Deficit)/Surplus with Additional Fee	-$103,773		-$186,922		$153,510		$412,420	
Net (Deficit)/Surplus with $0 RR	N/A		N/A		$99,510		$242,620	

15

Figure 4: Staffing Chart Assumptions

Base Income Assumptions

Grants	Start Up CBOs need grants in the amount of the (Deficit) at the bottom	
Developer Fee	$80k at closing plus $10k/unit at completion	(Above shows recommended $105k at closing)
Joint Venture Dev Fee Share	Small organizations share Fee under a JV structure	
Construction Management Fee	$25.5k project, annualized	
Asset Management Fee	2022: $95/Unit/Month to internal AM	(Above shows recommended $105/Unit)
Property Management Fee	2022: $95/Unit/Month to PM firm	
Project Revenue from Residual Receipts	Est. $500/unit. (was $800/unit for Operating Units (2018), decreased during pandemic)	

Staffing Roles

Construction Managers: for smaller organizations, CMs are 3rd party consultants paid hourly.

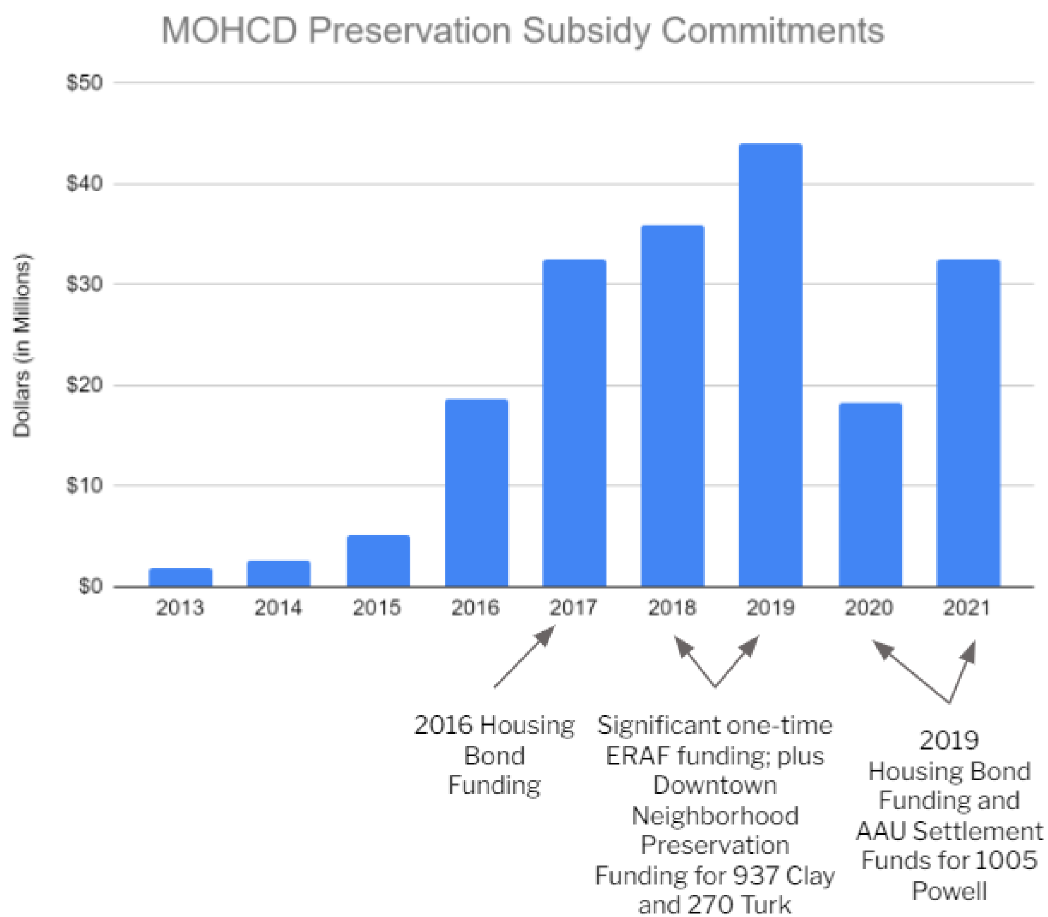
Asset Manager Roles: oversight of property management, management of risks and opportunities (portfolio and pipeline), compliance and monitoring
- Estimate they can manage 90/units person including new acquisitions (10-15 buildings)

Accounting Roles: financial controls, book keeping, accounts reconciliation.
- 0.5 staff at 1-10 buildings with pipeline of 1-2 new projects per year,
- 1 staff at 10 or more buildings, pipeline of 5 per year,
- 2 staff at 20 or more buildings, pipeline of 5-10 per year.

Operating Support: Allocation of E.D/Senior Leadership time for mentoring, project support, and strategic planning. More support needed for start up organizations with fewer PM staff.

Key Constraint II: Program Funding / Subsidy Availability

Financial constraints exist at all levels of the Program. The overall funding level for the Program determines how many units can be acquired and permanently supported through subsidy, Program-wide, by all CBOs in any given year. Historical subsidy available from MOHCD for all preservation activities including “Big Sites” over 40 units was approximately $30 million annually between 2017 and 2021, most of which came from one-time allocations.

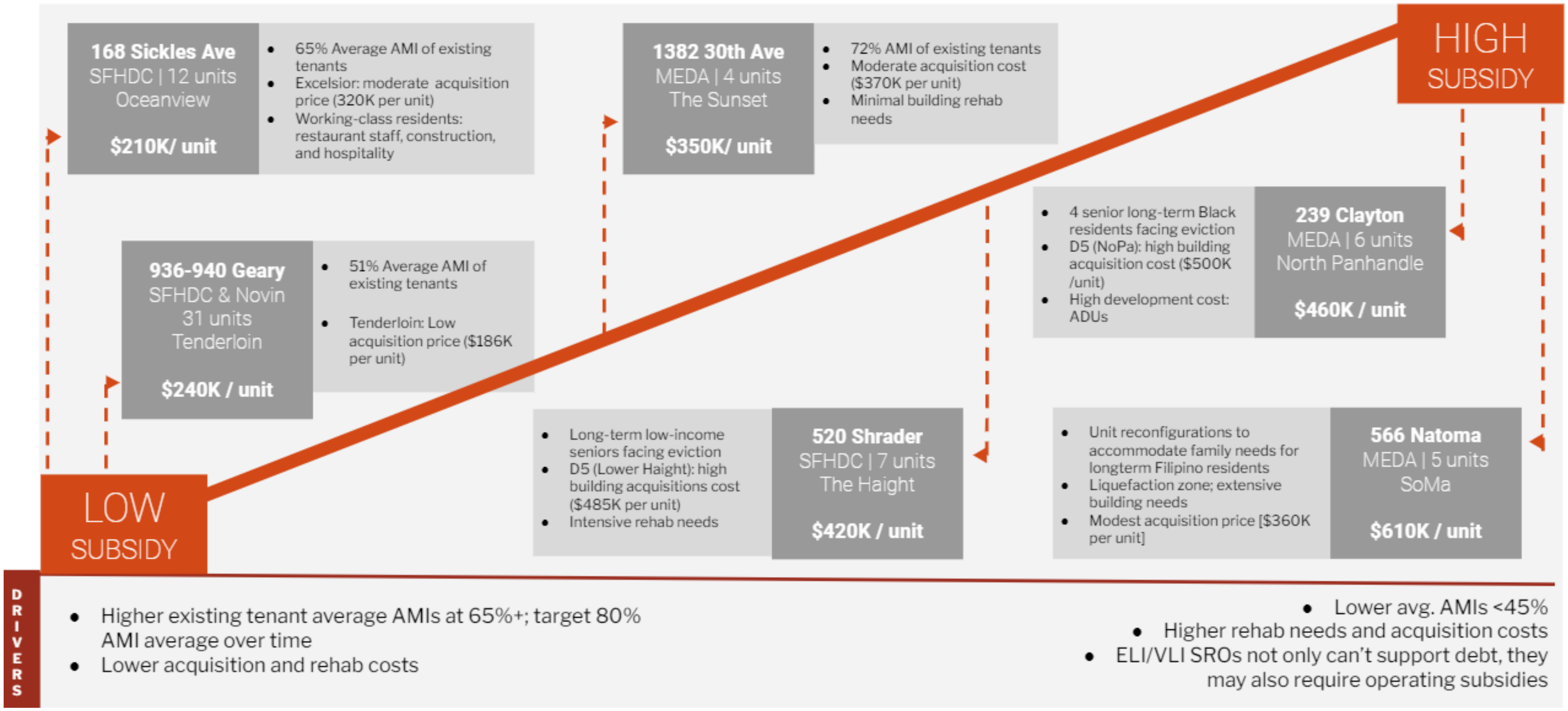


Adding 80 Small Sites units to the Program annually, at an average subsidy need of $375,000 per unit, requires $30 million from City sources, along with additional subsidy for Big Sites. MEDA alone acquired approximately 40 residential units plus additional commercial units in each of 2019 and 2020. **If multiple CBOs are to scale, more annual Program subsidy is needed. Additional funding for capacity building may also be needed for any organization whose small property portfolio is not self-sustaining.**

It's also important to note that on a project by project basis, the per unit subsidy can vary substantially. Some of the key drivers of a higher subsidy need include low existing tenant rents or incomes, and high rehabilitation or acquisition costs. Given the City's anti-displacement policy goals, which includes protecting vulnerable populations as well as promoting geographic equity and preserving more units, deviations from average per unit subsidy need and average AMI should be expected. The figures below provide examples of the subsidy drivers in both Small Sites (<40 units) and Big Sites (>40 units) projects that have been acquired under the Program.

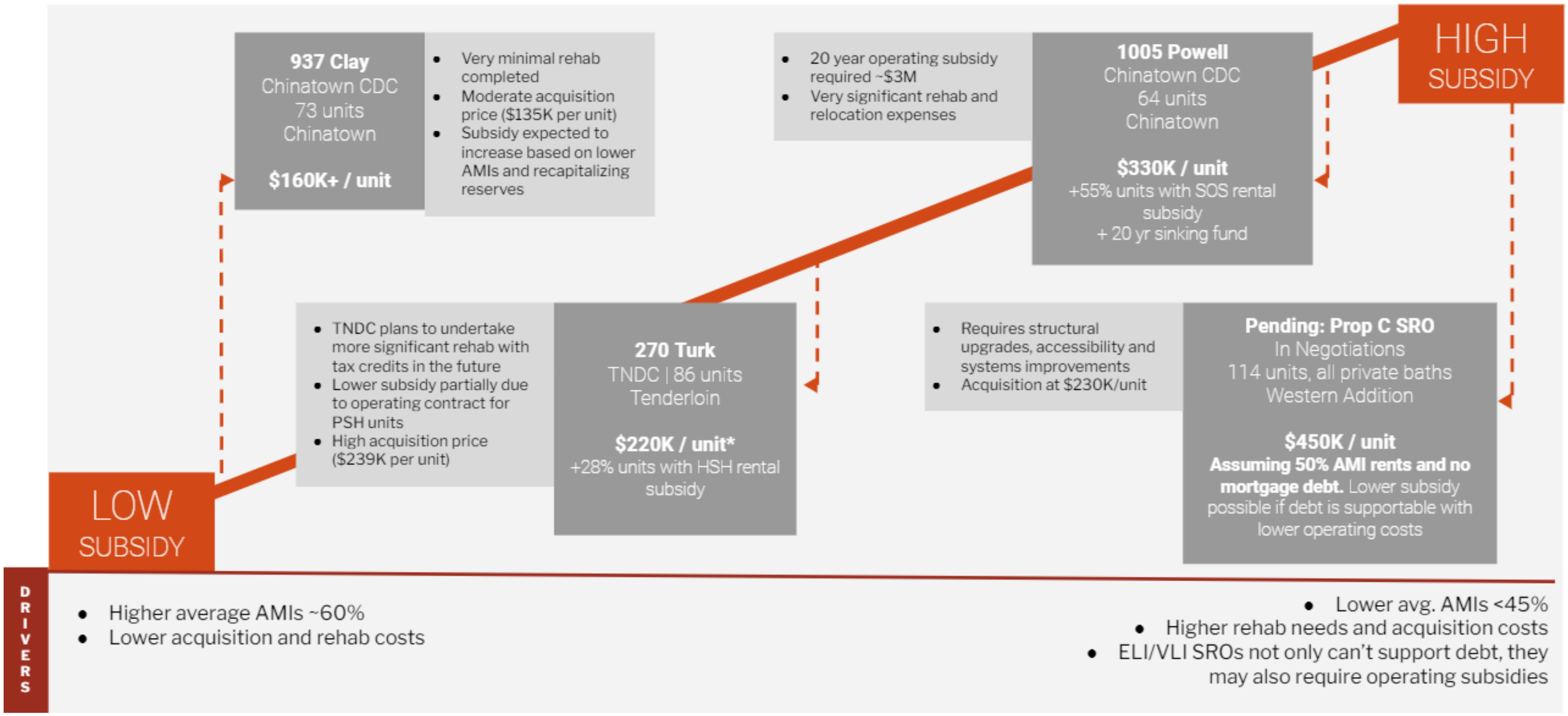
Small Sites Program | Project Subsidy Drivers

Balancing protection for vulnerable populations, geographic equity, and program financial sustainability creates tradeoffs



Big Sites Preservation | Project Subsidy Drivers

Most 40+ unit buildings with at-risk residents are historic SROs or studio buildings, which require high rehab needs including structural. Residents are also often lower income than Small Site program averages.



To a degree, irregularities in availability of Program funding from MOHCD can and have been managed with bridge financing. Through mid-2017, most Program properties were acquired by CBOs using a combination of CDFI first mortgage financing and MOHCD subsidy. Once HAF launched in mid-2017, most subsequent Program properties were acquired with bridge funding from HAF, with CDFI or bank first mortgage debt plus MOHCD subsidy used to repay the HAF bridge loan once property rehabilitation was completed. The principal benefit to using HAF bridge loans to acquire a property is that it makes it possible for CBOs to move at the speed of the market, expanding the set of properties CBOs can acquire to include properties whose seller requires an accelerated closing—see "Market Opportunities'' constraint, below. An additional benefit is that it allows the City to defer the date by which it needs to deliver subsidy funds to these properties by the term of the bridge loan—typically, a year or more. This flexibility gives the City more options to continue bringing new properties into the Program in advance of anticipated future subsidy becoming available. This partnership and timing flexibility also allows the City to manage its own staffing constraints. Ultimately, however, this additional flexibility is limited by the term of the bridge loan and the availability of future subsidy within the loan term.

Since 2018, MOHCD has also made available must-pay, low-interest, first mortgage loans for Program properties funded using Preservation and Seismic Safety bond measure funds, replacing private lender first mortgage loans with lower-cost, longer-term debt. This source has reduced the overall cost of financing for Program properties significantly and has made it possible for a wider range of properties to qualify under the Program's per-unit subsidy limits. This has helped expand the range of market opportunities that can be pursued by CBOs participating in the Program—next constraint, below—but is a limited financing source that is nearing depletion.

Key Constraint III: Market Opportunities

Acquisition opportunities in San Francisco that are suited for the Program are often limited and expensive. As noted above, during the early years of the Program, market opportunities were limited not only by price, but also by the patience of the seller to wait for a CBO to secure its financing package from MOHCD and a CDFI or other lender; this issue has been alleviated through the availability of bridge loans from HAF. Even during the pandemic in 2020, acquisition prices remained high, with CBOs reporting prices as fairly steady to slightly down, with modest price declines of perhaps $50,000 on some properties, and a declining number of properties available for purchase. However, in general, acquisition opportunities in some neighborhoods have been limited with very little transactions. **Particularly for CBOs who will only acquire properties located in specific neighborhoods, high prices exert continuing financial strain on the limited financial resources available to the Program and limited listings reduce acquisition opportunities and ability for CBOs to scale.** These conclusions are based on the Team's market analysis report.

Pathways to Additional Scale

Based on its analysis of the Program's activities to date, the Team considered several pathways for expanding the Program, in terms of both number of units and geographic dispersion, that also have potential to strengthen the Program's sustainability. These pathways include (I) continuing to invest in capacity at individual CBOs; (II) increasing collective capacity through greater collaboration; and (III) creating a joint entity to centralize key roles. Additionally, the Team identified several technical changes to the Program that could improve Program efficiency and support additional scale in conjunction with any of the pathways below.

Pathway I: Continue to Invest in Capacity at Individual CBOs

On this pathway, each community-based organization takes an independent approach. Across the Program participants, the frequency at which these CBOs hire in-house staff and build capacities internally, partner with other, more experienced organizations via joint ventures, and procure additional services externally, varies. Training and/or financial assistance is provided to grow select roles within experienced CBOs and/or to build organizations with early-stage preservation capabilities. Of the pathways considered, this approach corresponds most closely with the status quo.

For the short-to-medium term, this approach has the potential to scale the Program with additional acquisitions across an expanded set of City neighborhoods. Many CBOs have already received 1 to 3 years' worth of capacity building grants, allowing these CBOs to either enhance various capacities already in-house, or begin to build out new capacities, enabling them to become greater participants in the Program. This approach positions CBOs to leverage their existing relationships with the communities they serve, which is essential to identifying appropriate properties for acquisition and building trust with tenants. Costs of continuing to pursue this model for the long term are, however, high, due to the baseline capacities each CBO must invest in developing and/or maintaining, as well as the scale each individual CBO needs to achieve in order for its small property portfolio to be self-sustaining without additional infusions of grant support or cross-subsidization from other organizational activities. **Longer-term, scaling each organization will require hiring and retaining qualified staff for the long term, additional grants to support CBOs until they are self-sustaining, a higher commitment of annual MOHCD project subsidy for acquisitions, and more market opportunities whether it be through expanded geography, larger buildings, or changing market conditions.**

Five of the above CBOs have a 1-to-3-year runway to use their capacity building grants to develop a strategic plan and build capacity, while the Westside cohort is receiving mentorship through MEDA. By the end of 2021, once every organization has had time to rebound from organizational slowdowns due to COVID-19, it should become clearer how many CBOs intend to invest in the Program and their annual acquisition goal. This could lead to some potential next steps:

- Based on the amount of annual MOHCD project subsidy available, MOHCD and CBOs annually align the combined acquisition goals of all CBOs with the funding that is available;
- Continue to provide ongoing capacity building grants to some CBOs that are unable to scale due to external funding constraints but with clear growth metrics and funding milestones;
- Choose to build out select CBOs for development and ownership roles with a priority on criteria such as geography, racial equity, or capacity. Other CBOs could work in partnership to provide specific roles such as community and resident engagement;
- For smaller CBO portfolios, outsource certain roles to a more established CBO where revenue does not justify a full-time employee. For example, 90-100 units under management is needed to support 1 full-time asset manager – for smaller CBO portfolios, it may behoove the CBO to outsource the asset management capacity to a more experienced CBO for both cost efficiency and expertise;
- Shift more funding to “preservation at scale” – prioritize acquisition of larger properties over 25 units or a portfolio of properties where CBOs can earn more developer fees at once, and which may expand the universe of interested CBOs;
- Finally, create opportunities for CBOs to diversify their income streams such as developing capacity for managing general partner roles within tax credit projects whereby they partner with more established developers and earn a percentage of those larger developer fees.

Pathway II: Increase Collective Capacity through Collaboration

The second approach seeks to increase collective capacity through collaboration within one or a few CBOs by collaborating and even consolidating certain roles among CBOs and focusing on each organization's strengths. Roles considered for collaboration and/or consolidation include:

- **Turnkey Development** – High-capacity CBOs undertake additional development activity not only in neighborhoods where they have traditionally been active, but also in neighborhoods outside of their traditional areas of focus, and in some cases provide training opportunities for earlier-stage organizations. Long-term ownership, management, and stewardship of properties is turned over to local neighborhood CBOs.
- **Asset Management** – Select CBOs oversee portions of, or the entire, City-wide small property portfolio.
- **Property Management** – Multiple CBOs pool properties with a shared third party, or select CBOs develop property management capacity in-house and provide this service to other CBOs.
- **Community/Resident Engagement** – Select CBOs lead on-the-ground tenant outreach activities in specific neighborhoods.

For many of the CBOs in the earlier stages of Program participation, longer-term property stewardship responsibilities, such as property management and asset management, remain outside the immediate planning horizon, but they will likely be able to benefit in the medium-term from emerging, more cost-efficient, and increasingly expert property management and other services from their CBO peers and third-party service providers. Furthermore, some CBOs may decide development is not part of their core business model or strategy but they still have a community-based mission that supports affordable housing.

CBOs are already starting to realize the benefits of partnering to expand and enhance their internal capacities. Formally and informally, some aspects of collaboration and the role consolidation approach are already underway across the CBO cohort. CBOs considering participation in the Program are in regular communication with more established Program participants for assistance with property acquisitions and development activities. **Some CBOs with very early-stage preservation capabilities already have strong community and tenant engagement practices that can create mutually beneficial partnerships with more-established development CBOs.** MEDA and SFHDC have created a joint venture in which MEDA supports SFHDC in their acquisition and rehabilitation of small properties located within their targeted geographic area. Ongoing HPL sessions continue to help CBOs identify and explore new ways for partnering and collaborating to expand Small Sites preservation geographically. The Westside Collaboration described earlier in this report is also potentially an emerging model for collaboration among other CBOs.

Compared with the prior approach of building individual CBO capacity, this more collaborative approach encourages the CBO cohort to collectively identify organizational strengths, to translate those strengths into services that CBOs could purchase and exchange among each other, and to problem-solve around remaining weaknesses. It expands the set of market opportunities that the CBO cohort is collectively able to respond to, by empowering CBOs to share their capacities and take on projects that no one CBO could tackle on its own and could produce significant system-wide savings by more efficiently allocating staff, expertise, and other capacities across Program opportunities. Such an approach likely would, however, require a change in direction for CBOs who to date either have intended to develop additional capacities in-house, or who have overlapping areas of expertise with their peer organizations. For some CBOs, the change in direction may also require a re-calibration of mission and messaging to the communities they serve.

Within existing CBO organizational structure and business models, opportunities exist for CBOs to collaborate to both increase collective capacities across organizations, and to create greater efficiencies. Specific instances of collaboration CBOs could explore include:

- Existing neighborhood organizations could partner with larger CBOs and assume the neighborhood tenant relations role, managing all tenant organizing before acquisitions, resident engagement during acquisitions, and ongoing resident services;
- For CBOs with existing portfolios but minimal available capacity to pursue additional acquisitions and development, a designated CBO could act as the turnkey developer to assist in negotiating property acquisitions or be responsible for rehabilitation oversight before turning over to the neighborhood-based CBO for long term ownership and community presence;
- A larger CBO could build up its in-house asset management and/or compliance team to manage the assets or income certifications of smaller CBO portfolios where it is not yet cost effective to have in-house staff; and
- Long term, a CBO could develop a property management business that oversees assets of the entire Program, or all CBOs could work with the same 3rd party property manager and negotiate lower overall rates.

Pathway III: Create a Joint Entity

Beyond identifying opportunities for collaboration to enhance efficiencies across organizations discussed above, the creation of a joint entity, or a model for pooled ownership (or other capacities) across organizations, represents a more extreme scenario of reaching sustainability across organizations through partnership. **The current scale of the Program, including subsidy availability and units within each CBO's portfolio do not fully align with this method in the short-to-medium term.** However, the creation of a joint entity represents a potential long-term path for greater sustainability across organizations, while also expanding the scale and geographic reach of Small Sites preservation.

"JOE," short for "joint ownership entity," is a joint ownership or management concept where property owners collectively pool property ownership, asset management, or property management services, thereby creating economies of scale, in order to improve operating margins and economic efficiencies while also allowing local CBOs to maintain roots in their neighborhood. This model was implemented in New York City beginning in 2016 with a number of non-profit affordable housing organizations and is on track to pool over 3,000 units, allowing them to better preserve the long-term affordability of projects with a singular entity owning and asset managing the assets, while each CBO has decision making and some oversight rights on their properties. For the Program, examples of potential benefits from this model include:

- Forum for shared governance, collective decision-making, and system-wide problem-solving by the CBO cohort;
- Representative for shared CBO interests to external parties, including the City and MOHCD;
- Flexible access to existing capacities and expertise at CBOs through contracts or agreements with each, as needed;
- Additional possibilities for development, retention, and growth of staff capacity across the Program ecosystem, through additional project opportunities provided to CBOs by the joint entity, new staff positions at the joint entity, and additional collaboration with and support from peer CBO staff;
- Broader geographic footprint that could expand the Program to the entire City;
- Reduced costs through pooled buying power for goods and services such as, for example, third-party property management services or insurance;
- Pooled operating and replacement reserves across properties;

- Over time, a unified, stronger credit profile than each CBO on its own that can reduce borrowing costs;
- Access to a larger portfolio balance sheet for guarantees;
- Reputation as a stronger, unified entity compared to each smaller organization on its own; and
- Potentially larger distribution of cash flow to CBOs due to stronger operations.

The New York City context is not directly analogous to San Francisco, and thus a new Small Sites-oriented joint entity would require new approaches to core issues. JOE NYC, the New York City entity, is premised on non-profits contributing some or all of their assets to the entity, and in exchange receiving membership interests. Membership interests provide participating non-profits with benefits including a governance role in the entity and also a share in distributions of cash flow from the entity, as well as the other benefits set forth above. In San Francisco, however, currently over 70% of the Program properties are owned by MEDA and over 20% are owned by SFCLT, while other CBOs are in earlier stages of participating in the Program, with most owning no properties. With few CBOs that could contribute properties into a joint entity, an alternative approach to awarding membership interests that does not require contribution of real estate assets would need to be designed. An alternative approach that could be explored might, for example, include allocating membership interests in proportion not only to contributed assets, but also according to contributed services, in the form of staff time, expertise, or other resources from each CBO.

Another alternative could include, either separate from or in conjunction with a new “JOE SF,” establishment of an additional new entity focused specifically on property acquisition, stabilization over a short-term, and subsequent distribution to non-profit ownership. In 1996, New York City established a new entity, Neighborhood Restore, with the purpose of receiving physically and financially distressed *in rem* foreclosed properties from the City of New York, serving as the short-term, interim owner of those properties until they could be transferred to qualified long-term owners. In addition to facilitating the orderly transfer of waves of *in rem* properties, Neighborhood Restore has also assisted with the City’s responses to various challenges including the 2007-2010 financial crisis and Superstorm Sandy in 2012. In all of these instances, Neighborhood Restore has assumed ownership of pools of properties and subsequently re-distributed them to qualified owners. A similar entity established in San Francisco could acquire and assume ownership of Small Sites for the short-term and conduct any necessary emergency stabilization while orderly transfer to a qualified long-term owner is arranged. In San Francisco, options for long-term ownership could include JOE SF, if established, and/or various CBOs. Such an entity could seek to compete not only in the open market for specific properties as they become available, but also endeavor to purchase pools of properties that may be too large for any one CBO or may span multiple CBOs’ geographic focus areas. After the properties are acquired, they could be re-distributed to qualified owners according to criteria including staff capacity, fit with existing portfolio, geography, available funding, and other factors.

In the nearer-term, there is also an opportunity to test some of the ideas that underpin the JOE NYC and Neighborhood Restore models through application to the existing Program portfolio, by:

- Exploring whether properties MEDA owns could be treated more as a pool, for example by merging operating and replacement reserves across MEDA properties that have only MOHCD financing, allowing the financially-sound properties to cross-subsidize the weaker properties (no SFCLT properties are 100% financed by MOHCD);
- Creating a portfolio-wide waitlist for each CBO, or a combined Program waitlist amongst all CBOs by neighborhood to aid in faster lease up of vacant units, the latter of which will eventually grow to include more properties across multiple neighborhoods as smaller CBOs scale;
- Continuing to support Westside efforts that may also lead to a model that resembles a joint entity or a consolidation of roles, with multiple CBOs coordinating on a shared effort;
- Trialing a pooled-property acquisition through a CBO, through HAF, or through another existing organization;
- Continuing to support partnerships and information sharing between CBOs so that CBOs see each other as partners with aligned missions rather than competitors. This is already happening both formally and informally via regular HPL meetings and joint advocacy regarding housing policies and underwriting guidelines, sharing of best practices between CBOs, cooperation to not compete against each other on potential acquisitions, and development of joint ventures between MEDA and smaller CBOs.

Recommendations

Outside of the three general pathways to scaling discussed above, additional opportunities to improve Program efficiency were also identified. Broadly, these opportunities relate to overall Program strategy as well as specific revenue/cost levers, and include:

- **Long-term approach to CBO capacity building.** Due to the extended timeframe needed for any CBO to achieve scale with a small property portfolio, a long-term capacity building approach that commits to supporting specific CBOs over an extended, multi-year period could help selected organizations sustain their efforts to the point where self-sufficiency is achieved. Ideally, capacity building funds would be a dependable, recurring source selected CBOs could rely on for five to ten years while they assemble a portfolio of a dozen or more geographically proximate properties. Aligning capacity building funding with Program capital subsidy availability will also help to streamline each participating CBO’s path to self-sufficiency, by making acquisitions possible at a pace that matches each organization’s staffing capacity.
- **Increased rental revenues.** Given the recent update to marketing and lease up protocol, continue to track the impact of these new policies portfolio-wide. Make refinements as needed to reduce vacancies and associated costs. Pursue formal partnership with HSH to prioritize and streamline lease up to FlexPool voucher holders within the Small Sites portfolio. Increase DSC ratios on MOHCD’s PASS Loan which will provide additional cash flow cushion for CBOs to earn residual receipts (see MOHCD Program Guidelines below).
- **Savings on specific operating expense items.** Although Program property portfolio operating expenses overall appear comparable to operating expenses at similarly-scaled, for-profit held portfolios of small multifamily rental properties, there are, on a property-by-property basis, specific items where additional savings may be possible.
- **Refinance existing debt.** Permanent financing for the first wave of Program properties was comprised of a combination of CDFI-originated first mortgage debt, plus Program subsidy. More recent Program properties have been financed using a combination of PASS first-mortgage debt and Program subsidy. PASS loan terms are significantly more favorable than terms on CDFI-originated loans, which for more recent Program properties have increased leverage and reduced subsidy need. If debt on first-wave Program properties could be refinanced using PASS debt or other loans with similarly improved terms, savings

could be applied either to increasing property income after debt service—thereby increasing residual receipts distributed to CBOs and accelerating portfolio self-sufficiency—or to returning subsidy to MOHCD for re-allocation to additional projects.

- **Other innovative ideas.** As it is unclear how significant the annual MOHCD subsidy availability will be over time, other programs taking an alternative approach to preservation of affordable rental stock in small rental properties could be designed in parallel. For example, many 'mom and pop' owners of Small Sites who are considering selling and where there is risk of tenant displacement may be willing to continue to be landlords if they can be assured an operating subsidy to cover a portion of operating expenses while the AMIs of tenants are below a certain threshold. This is akin to a "master lease" model but with lower monthly funding commitments and could be more financially sustainable to MOCHD than upfront per unit acquisition subsidies.
- **Revisions to the MOHCD Program Guidelines.** MOHCD's Program Guidelines determine the eligibility of certain properties for financing from the Program, the financing terms provided by the City, as well as sets the processes and procedures required for Program underwriting and compliance. Periodic updates to these guidelines can help to ensure that the Program is targeting the ideal property types, while also conforming to current market standards and practices from participating CBOs. We recommend the following changes to MOHCD Program Guidelines and procedures.
  - **Marketing and Lease Up:** In May 2021, MOHCD circulated a revised SSP Marketing and Leasing Manual that will ideally streamline the leasing process and reduce vacancy periods. The revised procedures mark a significant departure from the historic practices included in the original guidelines, created in 2014 and subsequent revisions through 2017. These include:
    - CBOs will be able to broadly market all units available at a single project through DAHLIA and then work with the waiting list that is created from a lottery in order to fill vacant units for three to five units into the future;
    - Initial income certification procedures will align with those of TCAC, with certain modifications by MOHCD; and
    - CBOs will conduct income qualification processes independently of MOHCD and will not be required to obtain MOHCD's approval in order to lease a vacant unit.

The effect of these changes on reducing vacancy rates and forgone rental revenue should be monitored, with further changes to be considered if vacancy rates due to lease-up remain high. Additional considerations could include:

- Allow the waitlist to be at the CBO's portfolio level instead of by property;
- Allow the waitlist to re-open annually in order to refresh the list; and
- Coordinate with HSH to refer formerly homeless residents with HSH rental subsidies directly to Small Sites properties outside of DAHLIA.

- **Increased Asset Management Fee or Income Certification Fee:** In order to build the appropriate capacity, increase monthly Asset Management Fees (for ex., from $95 to $105 per unit in 2022) to help cover the cost of asset management and accounting staff, or allow CBOs or property managers to charge an annual per unit Income Certification Fee to cover the staffing costs of leasing with the goal of further developing in-house "experts". Increased Fees will reduce residual receipts income, so changes to Debt Service Coverage Ratios are also recommended below.
- **Increase Developer Fees:** To help cover the costs of staffing, increase the acquisition fee at project closing from $80,000 to $105,000.
- **Supplemental Fees for Collaboration:** The purpose of this fee is to incentivize expanded collaboration among the CBO cohort, spurring development of increased collective capacity and laying the groundwork for joint action in the future. For example, MOHCD could provide an annual per unit fee (for ex., of $1,500) outside of project sources for partner CBOs to lead resident engagement and services.
- **Increase Debt Service Coverage Ratios:** Small Sites projects have tight margins and a limited ability to absorb operating expense challenges such as extended vacancies or large insurance increases. Increasing the DSC (for ex., from 1.10 to 1.15) on MOHCD's PASS Loan will provide additional cash flow cushion (but will also require additional Program subsidy), ideally allowing CBOs to earn residual receipts income which is significant to the organizations' long term financial sustainability.
- **Asset Management / Financial Reporting:** Each CBO should be required to book costs in a consistent manner for apples-to-apples comparisons by MOHCD. Detailed guidelines with respect to how costs are booked for asset

management and financial reporting could assist in monitoring Program properties to identify areas for further improvement. This would need to include training and written guidance by MOHCD to inform asset managers how to do so.

- **Publish Annual Operating Cost Standards:** To provide operating guidance to organizations, MOHCD should publish annual operating cost standards which could be informed by more consistent apples-to-apples reporting by CBOs. Publication of annual operating cost standards could assist CBOs at a variety of stages of Program participation: for earlier-stage Program participants, this could be a valuable tool to incorporate in long-term organizational planning; and for more established Program participants, this could be a benchmark for comparing specific properties with the Program property pool as a whole.

Summary of Approaches

Approaches	Analysis & Findings	Feasibility & Next Steps
Stay the course: continue building capacity at all CBOs	• $100-$150k/year per CBO in grants at 6-12 units • ~$500k per CBO over 5 years to build capacity & be self-sufficient • Cross subsidize small CBOs with revenue from other business lines	• Most resource intensive in the short-term and long-term • Supportive of geographic equity • Requires ongoing project subsidies
Build out select CBO(s): prioritize racial equity, geography, other	• $30M Project Subsidy = 80 units/year total, need reliable funding source • Supports 2-3 CBOs	• Cost effective and feasible in the near-term; most supportive of maximizing # of units preserved with finite funds • Would require political / policy clarity around which CBOs get built out
Consolidation/ Specialization of Roles: partnerships - not all CBOs have to develop	• Engage neighborhood level community outreach partners and access community development funding • Save on staffing costs for small portfolios: outsource asset mgmt, income certs, etc. to larger CBOs • Partnerships could range from joint ventures to full mergers	• Possible in near-term and likely cost effective • Requires furthering fleshing out of strategy, structure, and roles • Supportive of geographic equity

"JOE": joint ownership or management	• JOE not likely in near term: MEDA owns 73% of portfolio. • Near term: MEDA can take economizing steps, e.g., portfolio-wide waitlists and pooled reserves • MEDA best positioned to absorb or manage other CBOs' portfolios if needed	• Promising in the long term, but not feasible in the near term • Worth re-evaluating when there are multiple CBO portfolios that have reached sustainability
Preservation at scale: consider "one-off" large-scale opportunities	• Achieve rapid economies of scale by pursuing large portfolio acquisitions; multiple CBOs could participate • Consider less traditional ownership approaches - private developer partnerships, JPA, City itself	• Requires opportunistic, market-driven action • Requires City and CBO preparation and readiness

Conclusion

The question of how CBOs active in San Francisco's Small Sites development community can scale is complicated, with no single opportunity representing a solution that universally meets the needs of MOHCD, the individual organizations, the development community, and other stakeholders involved. Rather, the spectrum of recommendations described in this report, as well as an understanding of the overarching goals of the Program and the public resources required to support participating organizations in meeting those goals, may be the most feasible path in terms of scaling Small Sites preservation throughout the City. Along with this expansion, the CBOs involved must be aligned in terms of how to expand their geographic focus areas, as well as ensure their own portfolio sustainability.

The CBOs that are active or are contemplating further participation in the Program vary in terms of their development and asset management experience and capacity. When weighing their participation in the Program, each must balance 1) mission alignment in expanding to new geographic areas, or whether to become more of a development-focused organization, 2) the significant costs associated with becoming a developer and the costs associated with maintaining a portfolio, and 3) the timeline for an internal Small Sites program becoming sustainable so that it is able to cover all relevant Program costs. On top of this, the CBOs must ensure that 4) a pipeline of potential projects exists, ideally without constraining the development of another CBO, and that 5) there is enough Small Sites subsidy available to support ongoing project acquisitions.

The considerations and priorities listed above, when compared with MOHCD's stated goals to scale the Program, both from geographic and volume perspectives, are not always perfectly aligned. Therefore, instead of the Program implementing a new approach or financing mechanism that addresses all these considerations concurrently, the Program may look to scale over time by implementing one or a series of more near-term, actionable opportunities, while aligning on a strategy for long-term growth. Key to defining this long-term strategy will include the following considerations:

- **Breadth of Possible CBO Partnerships:** In this Report, our Team has identified ways in which the CBOs that are currently actively participants in the Program, as well as those contemplating an expansion of their business into Small Sites preservation, may partner or consolidate roles to help the Program expand, both geographically and in terms of volume. In addition, CBOs may consider additional, external partnerships beyond the HPL cohort, such as with private, for-profit developers or property management companies. These partnerships are an essential component in scaling the Program, and any actions taken by the public sector should be in support of CBOs continuing to be financially and organizationally incentivized to continue to explore these further.

- **Consistent Annual Program Subsidy Commitment:** Consistent, reliable subsidy commitment for anti-displacement acquisitions is a fundamental component of scaling a sustainable program. The scale of acquisitions and the number of CBOs sustainably supported will both depend on the amount of the budgetary commitment to preservation going forward.
- **Prioritizing Strategic Opportunities for Preservation:** Small Sites preservation is just one of the strategies that MOHCD employs when trying to increase density and affordability, and doing so in a way that is efficient and cost-effective. Depending on the experience of the CBO involved and building economics, the Program has proven to be a viable strategy in adding density via ADUs and preserving affordability across the City. However, with the ramifications of the COVID-19 still being felt by CBOs, and the pandemic's effect on the City's housing and acquisition market dynamics, other opportunities exist for promoting density and affordability at a larger scale. This might include prioritizing CBO acquisitions of sites over 25 units, or more "one-off" opportunities. For example, in the past year the City has been able to successfully acquire several underutilized hotels and convert these buildings to permanent supportive housing. Given the availability of underutilized assets as acquisition opportunities, combined with flexible funding from the City and State, MOHCD may wish to evaluate alternatives for the most quick and cost-efficient way to deploy its funding in a way that produces the greatest level of impact possible, potentially diverting funding to these larger-scale acquisition targets while the opportunity to do so still persists.

Next Steps: Near-term opportunities to support Program expansion can be relatively simple to implement and can help to mitigate current challenges faced by Program participants, such as continued revision of MOHCD's Program Guidelines as needed, or the continued provision of funding to smaller CBOs, but with an emphasis on business planning and strategizing. Over time, regular convenings of active CBOs may help to identify and consolidate opportunities for role-sharing and joint venture partnerships among organizations, allowing them to strategically decide how to build capacity internally while still participating in the Program. As a long-term goal, participants may decide that the creation of a new entity designed to oversee certain elements of the Program may support their organization more efficiently, if the question of subsidy availability to sustain continued ongoing preservation work is answered.

Our Team looks forward to discussing a strategy for Program expansion with MOHCD, both focusing on the actions MOHCD, CBOs and the Team can take near-term, while helping MOHCD to identify a longer-term strategy and how Small Sites preservation fits in. We hope that the analysis, strategic thinking, and recommendations included in this report can help to inform MOHCD's decisions about how to enhance preservation City-wide, while also supporting CBOs that are vital to the communities they serve.

Appendix A: Project Workplan

The Project workplan was broken out into three components—(I) Research; (II) Feedback and Consensus Building; and (III) Action Planning and Next Steps—as described below.

Workplan Item (I): Research

- **Analysis of and discussions with CBOs** to understand long-term organizational goals, opportunities and challenges, and to determine where/how organizations could be most impactful. MEDA and Forsyth Street met regularly and also conducted one-on-one meetings with BHNC, SFCLT, SFHDC and YCD between December 2020 and February 2021. Separately, MEDA met with Westside organizations to support the expansion or creation of a neighborhood CBO focused on preservation opportunities for the Westside. Each CBO reviewed or completed 1) an Organizational Readiness Survey which MEDA used to assess the organization's readiness to becoming an independent developer; and 2) a four-year financial planning tool to determine profitability and fund-raising needs to support their organization's involvement in the Program and the costs associated with it.
- **Review of the existing Small Sites portfolio** via Asset Management Reports of operating properties to understand any operating or programmatic areas that could be refined. Forsyth Street compiled data from 2017 and 2018 AMRs (the latest available), roundtabled findings through various meetings with MEDA, HAF, and MOHCD, and identified areas within each organization's operations that could be improved through individual capacity building or programmatic changes.
- **Review of MOHCD SSP Guidelines** to provide recommended changes, if needed, to help projects and organizations achieve long term sustainability.
- **Development of financial models** to test the long-term viability of the Program, including both the financial planning model used in group and one-on-one discussions with CBOs and an additional analysis of AMR data.

Workplan Item (II): Feedback and Consensus Building

- **Debrief research findings internally** to strategize around specific opportunities for Program improvement and scaling and identify efficiencies across Program participants and operations. MEDA, Forsyth Street, and HAF met regularly over the course of this engagement to discuss findings associated with the Research tasks outlined above, identifying ways in which shared knowledge or capacities could help to scale the Program.

- **Convene regular meetings with the broader Housing Preservation Lab cohort** to share knowledge, experience and ideas and build consensus around best practices and shared goals. The Team met with the HPL cohort in September 2020 to present on the status of the innovation and capacity building grants and to discuss the workplan proceeding over the next several months. In November 2020, the Team met with the cohort to review the capacity building tools mentioned earlier, and met again in May 2021 to solicit feedback on findings.

Workplan Item (III): Action Planning and Next Steps

- **Summarize the findings in this Report**. The Team will discuss the Report outcomes and recommendations with MOHCD and the HPL cohort to identify potential next steps organizations and the City may take.

Appendix B: Project Operating Information

For the properties that are already part of the Small Sites Program, we reviewed operations of 35 existing assets from the latest available AMRs (2018) to determine how operating expenses compared to similarly-scaled, for-profit held portfolios. Based on this information, we identified any improvements that could be made with property-level operations or through the adjustment of MOHCD Small Sites underwriting guidelines.

As of 2018, three CBOs had acquired 26 properties as part of the SSP – MEDA (15), SFCLT (10), CCDC (1). Since then, SFHDC has acquired 1 property in partnership with MEDA, MEDA has acquired another 17 properties, and CCDC acquired 2 larger sites over 30 units (2018 AMRs were not applicable). We also reviewed the operations of 9 older assets acquired by Mission Housing Development Corporation (MHDC) under a predecessor MOHCD program between 1980-1992, with one in 2016.

Figure 5 below shows the Average Revenue and Expenses of the four CBOs plus a market rate portfolio for comparison.

Figure 5: Small Sites Operations

2018 Operating Information by Unit	**MEDA**	**SFCLT**	**CCDC**	**MHDC**	**16 Unit Market Rate (Rent Controlled) Portfolio 2019 Data**
Property Name	**Wtd AVERAGE of 15 Properties**	**Wtd AVERAGE of 10 Properties**	**1 Property**	**Wtd AVERAGE of 9 Properties**	**Wtd AVERAGE of 16 Properties -2019**
Residential Units	**6**	**7**	**6**	**11**	**27 Units/Avg**
Has Commercial Space					
Average Monthly Rent/Occupied Unit (if full year)	$1,383	$1,324	$920	$1,291	$1,659
Per Unit:					
Effective Gross Residential Income	$17,333	$14,668	$11,507	$15,393	$19,908
Effective Gross Commercial Income	$3,012	$0	$0	$1,351	
Miscellaneous Income (usu. parking)	$361	$70	$4	$424	
Total Gross Revenue	$20,706	$14,738	$11,511	$17,167	$19,908
Operating Expenses (Details Below)	($6,903)	($6,339)	($6,875)	($18,657)	($6,900)
NOI	$13,803	$8,399	$4,636	($1,490)	$13,008

Debt Service	($10,856)	($8,221)	($3,542)	($1,051)	Not Available
Deposits to Replacement Reserve	($380)	($376)	($400)	($1,116)	Not Available
Deposits to Operating Reserve	$0	($563)	$0	($694)	Not Available
Surplus Cash Flow	**$2,566**	**($760)**	**$694**	**($4,350)**	
Proposed Owner Distribution	**$855**	**$0**	**$231**	**$0**	

	MEDA	**SFCLT**	**CCDC**	**MHDC**	**Market Portfolio**
Operating Expense Detail					
Property Management Fee	$840	$560	$865	$660	$453
Asset Management Fee	$875	$804	$780	$556	$0
Salaries & Benefits	$0	$463	$36	$2,428	$777
Administration (Mktg, Legal, Audit, Bookkeeping)	$140	$351	$652	$2,796	$112
Utilities	0	0		0	
Electricity	$203	$127	$9	$260	$207
Water	$851	$790	$699	$547	$378
Gas	$154	$49	$369	$265	$366
Sewer	$4	$162	$1,006	$732	$549

Real Estate Taxes	$2,085	$795	$203	$115	$1,927
Misc Taxes, Licenses, Permits	$2	$41	$156	$163	
Property and Liability Insurance	$211	$600	$351	$753	$426
Maintenance and Repairs	0	0		0	
Trash	$581	$473	$858	$908	$693
Contracts	$517	$853	$884	$6,394	
Miscellaneous	$440	$271	$8	$1,252	$1,012
Supportive Services	$0	$0	$0	$829	
To be Reimbursed from Replacement Res.	$0	$0	$0	$0	
Total Operating Expenses	**$6,903**	**$6,339**	**$6,875**	**$18,657**	**$6,900**
Excluding Property Taxes	**$4,818**	**$5,544**	**$6,672**	**$18,542**	**$4,973**

Although the information above only reflects one year and can vary over time, the 2018 per unit operating expenses for MEDA and SFCLT were reasonable and in-line with a comparable market rate portfolio. CCDC, with one small property, does not have a large enough data set. MHDC, which has older buildings from a predecessor program, had extremely high operating expenses. These were primarily a result of 1) Salaries: portions of staff salaries are allocated to each site unlike the Small Site CBOs; 2) Administrative: higher bookkeeping and bad debt expenses; and 3) Maintenance and Repairs: the AMRs do not provide enough information to determine what the higher contract and repair costs are.

Keeping in mind that the pool of CBOs that had properties to review is small, the findings and recommendations on property level revenue and expense line items are as follows:

- **Lost Revenue During Lease Up Period:** Once a property is financed with MOHCD's funds it must comply with MOHCD's below market rate rental process. Historically, upon unit turnover each unit had to be remarketed individually with a separate marketing process and lottery, and each unit's waiting list was valid for 6 months. CBOs have noted that the unit-by-unit marketing and leasing process is time consuming for both the CBOs and MOHCD review, and causes long vacancy periods resulting in loss of revenue. Furthermore, for units that are marketed at over 60% AMI (in order to cross-subsidize the units rented at lower AMIs, resulting in a building average of 80% AMI), CBOs have found it harder to attract higher income bands to the DAHLIA portal without extensive external marketing as those applicants aren't familiar with the system. Collectively, these actions lead to longer vacancy periods than projected, thereby decreasing occupancy levels and operating income. In May 2021, MOHCD circulated revised Marketing and Leasing Procedures that will ideally streamline the leasing process and reduce vacancy periods.

Lease Up Period Additional Recommendations:

- Allow the waitlist to be at the CBO's portfolio level instead of by property;
- Allow the waitlist to re-open annually in order to refresh the list; and
- The Program may coordinate with HSH to refer formerly homeless residents with HSH rental subsidies directly to Small Sites properties outside of DAHLIA.

- **Administrative Expenses, Lease-Up and Income Certifications**: In order to keep third party property management costs low and/or due to third-party lack of expertise in affordable housing compliance, MEDA and SFCLT manage the marketing and lease up processes through either internal staff (MEDA) or through a combination of internal staff and a third-party contractor (SFCLT). Separately, we also reviewed MHDC operations, though it acquired properties under a predecessor program. MHDC uses Caritas, a sister property management company, while CCDC, like MEDA, also manages the marketing and lease up processes internally.

  Leasing activities include completing the MOHCD marketing plan, advertising, administering tenant leases, and completing income certifications at lease up and annually on an ongoing basis. CBOs need to ensure they have the right internal capacity or third-party contractor to manage leasing and income certifications as it impacts vacancy losses and property tax exemptions. Administrative/accounting activities include bookkeeping costs, which are separate from 3rd party audits. MOHCD Guidelines allow both a per unit Asset Management Fee and Property Management Fee (each $92 in 2021), escalating 3% annually to cover all costs of managing a SSP property. However, the asset management (accounting, leasing, compliance, and monitoring) is staff intensive and the Fees do not always cover the true overhead costs on their own, but may be covered as CBOs scale through developer fees and residual receipts.

  Administrative, Lease-Up and Income Certification Process Recommendations:

  - In order to build the appropriate capacity, the Team recommends CBOs or property managers be allowed an annual per unit Income Certification Fee to cover the staffing costs of leasing with the goal of further developing in-house “experts”, or increase Asset Management Fees.
  - CBOs may want to consider whether select organization(s) should build out a compliance team for use as a third-party contractor by other CBOs.
  - Each CBO should be required to book costs in a consistent manner for apples-to-apples comparisons.

- **Property Management:** There are currently two property management models: 1) 3rd party property managers that do not focus exclusively on affordable housing properties; and 2) in-house or 3rd party property managers owned by affordable housing developers with LIHTC compliance experience.

  MEDA and SFCLT use 3rd party property managers that are not solely focused on affordable housing – 2B Living and Kalco. The property managers receive all or a portion of the per unit Asset Management Fee allowed by MOHCD (up to $92 per month in 2021, increasing 3% annually) which in 2018 averaged slightly less than 4% of Gross Income, and charge separately for ‘house calls’ such as repairs. Notably, MEDA’s property manager is able to benefit from scale with over 200 units under management and the majority of buildings geographically concentrated in the Mission. As mentioned previously, to keep the property management costs low and because it requires a specific affordable housing knowledge, MEDA and SFCLT handle leasing and income certifications separately.

  This model has provided benefits to both the property management companies and the CBOs – the property managers are entrepreneurial and “hungry” for business (their pricing is competitive and they specialize in building operations), while the CBOs are able to build capacity elsewhere and focus on other critical elements to the Program, such as development, asset management, and tenant relations.

  MHDC uses Caritas Management, a sister company that specializes in affordable housing management for MHDC and other owners. While MHDC’s 2018 Property Management costs also averaged around 4% of Gross Income (varying widely by property), there were additional costs that the SSP sites did not have: allocation of Property Management salaries to each property, and higher bookkeeping fees (separate from financial audits) and bad debts. It is unclear if bookkeeping fees are for internal or external staff, and whether rent collections could be increased with different property managers, or if the latter is due to the makeup of the tenant population. Caritas also manages the leasing and income certifications which justifies the higher administrative costs, however, this model may not be worth building the capacity for within each CBO’s organizational structure. As these organizations build these captive internal businesses, they must continue to be cost-competitive or they run the risk of losing external management opportunities due to more cost-efficient competition. CCDC, which has one small site and two larger sites acquired using SSP funding, uses in-house property management that also manages its larger portfolio of LIHTC properties. CCDC has considered expanding their property management services to the Westside but no decisions have been made to date.

Property Management Recommendations:

- At the moment, nearly all CBOs are too small to form an in-house property management business that is self-sufficient, and therefore must first prioritize building development and asset management capacity if they are to be sustainable. For any organization to consider this in the future, it will require additional bandwidth and a business planning period to determine if it 1) can be cost-competitive to the current model, 2) whether it can expand geographically and manage other CBO's properties, and/or 3) if it should focus solely on specific components such as leasing and income certifications.

- **Utilities**: While utility expenses vary across organizations and properties, there are a few properties within each CBO that have high water and sewer expenses.

Utilities Recommendations:

- Utilities should be reviewed for cost saving measures: fixing any repairs or leaks, energy and water efficiency improvements, and whether costs should be allocated to commercial tenants through separate meters or proportional billing.

- **Real Estate Taxes:** MEDA and SFCLT properties had delays in receiving tax exemptions, requiring them to pay the taxes from Operating Reserves and replenish the reserves once the tax rebate was received. Properties that continue to pay taxes include those that have units over 80% AMI and commercial spaces. While there may be opportunities for CBOs or the Assessor to respond faster, generally this is a timing issue that does not impact long term financials.

- **Maintenance and Repairs:** Maintenance and Repairs costs vary across properties and organizations but are heavily correlated with the property's age. Specifically, MHDC has recorded higher maintenance and repairs costs due to its older portfolio. Within other CBO's portfolios, these expense items are average, but the data is also relatively new. CBOs should expect maintenance and repair items to occur as part of the natural course of doing business, but recognize the importance of keeping their properties up to date and addressing any repairs quickly. MOHCD Guidelines adequately allow the 2/3 of surplus cash flow to MOHCD to further fund a property's replacement reserves until the reserves are 1.5x the required amount.

- **Tenant Relations:** CBOs collectively expressed three main components to creating healthy tenant relations:

- Tenant Organizing – before a property acquisition occurs, CBOs communicate and work with the tenants of a potential acquisition to agree with the purchase and departure from rent control;
- Resident Engagement/Relocation Specialist – supports the tenants during rehabilitation to handle temporary relocation; and
- Resident Service Connector – provides long-term support for the tenants by connecting them to outside services.

To date, CBOs have not allocated any of these costs to the property and do not necessarily have employee(s) covering all three roles. As they scale, this capacity remains critical to the success of the Program and healthy resident outcomes.

Tenant Relations Recommendations:

- Due to the lean operating income on most Small Sites properties, CBOs need to raise additional outside funding to support this position beyond their developer fees and revenue from other business lines. MOHCD should confirm whether there are grants available within City-wide resources, or CBOs can also seek grants from foundations and private organizations. In some neighborhoods such as SOMA and the Westside, CBOs can also partner with already established neighborhood organizing groups or smaller CBOs.

- **Debt Service, Refinancing:** Some early projects that were financed before MOHCD's low-cost PASS first mortgages were available have first mortgage interest rates in the 4%-6% range, and/or are for shorter 7-to-10-year terms. MOHCD's most recent PASS issuance offers favorable terms of 2.60% interest for 40 years, though the funds are in high demand from other programs as well (the 2nd and 3rd issuances of PASS bonds total $190M). Alternatively, commercial banks or CDFIs willing to refinance loans at longer terms and lower interest rates may also produce savings.

  Debt Service, Refinancing Recommendations:

  - CBOs should review prepayment penalties, closing costs, and consider refinancing to lower annual debt service costs where possible. Refinancing could allow CBOs to obtain a lower interest rate or longer term on their outstanding debt, allowing them to generate more NOI thereby creating additional residual receipts for the CBO. Alternatively, a CBO could increase its first mortgage and use it to repay a portion of MOHCD's project subsidy which in turn could be used to fund new projects. Figure 6 below shows sample annual debt service savings by refinancing with lower interest rate and longer-term debt.

Figure 6: Refinancing Examples

	Initial Amount	Rate	Term	Maturity	Annual Debt Service Payment	Outstanding as of 2021*	Annual Payment after PASS refinancing: 2.6%, 40 Years	Annual Increase to NOI	Annual Payment after bank refinancing: 4%, 40 Years	Annual Increase to NOI
Project 1	$2,040,000	5.50%	30	Aug-45	$140,256	$1,693,806	$68,156	**$72,100**	$87,903	**$52,353**
Project 2	$1,020,000	5.25%	8	Dec-26	$70,164	$661,815	$26,630	**$43,534**	$33,825	**$36,339**

* Numbers are estimates only, does not include prepayment penalty and closing costs. Project 2 loan docs have no prepayment penalty.

- **Impacts of COVID-19**: While we will not see the full impact of COVID-19 on properties' financials until 2020 AMRs are submitted in 2021, a couple of issues have been brought to light:
    - San Francisco rents have softened, and some properties have had trouble renting higher 80% AMI units at projected rents. These CBOs are requesting to reduce AMIs and rents, which will lead to lower revenue and average AMIs.
    - Both residential and commercial tenants have missed rent payments due to loss of employment or business shut down.
    - Organizational capacity at CBOs has been challenging as the impacts of COVID added to staff's regular responsibilities

Appendix C: Small Sites Portfolio List

HAF Bridge Loan	Project # / Date in MOHCD Portfolio	Project Name/Address	CBO	Residential Units	Commercial Units
SSP financed directly with MOHCD:					
No	2016-030	462 Green Street	CCDC	6	
No	Not provided in AM Data	800-810 Clement Street/289-91 9th Avenue	CCDC	16	
No	2017-001	3800 Mission Street	MEDA	5	Yes
No	2016-120	269 -271 Richland Ave	MEDA	6	
No	2016-004	344-348 Precita Ave	MEDA	3	Yes
No	2017-006	35 Fair Avenue	MEDA	4	
No	2017-014	19-23 Precita Ave	MEDA	3	
No	2016-025	1500 Cortland	MEDA	4	
No	2016-066	3840 Folsom Street	MEDA	4	
No	2016-056	3182-3198 24th St	MEDA	8	Yes
No	2017-004	63-67 Lapidge Street	MEDA	6	
No	2017-003	1015 Shotwell	MEDA	10	

No	2017-005	2217 Mission Street	MEDA	8	Yes
No	2017-022	3353 26th Street	MEDA	10	Yes
No	2015-014	380 San Jose Avenue	MEDA	4	
No	2015-040	642-646 Guerrero St	MEDA	4	
No	2016-075	3329-3333 20th St	MEDA	10	
No	2015-016	70-72C Belcher St	SFCLT	5	
No	2015-013	1684-1688 Grove St	SFCLT	3	
No	2015-023	Merry Go Round Hse	SFCLT	14	
No	2014-026	151 Duboce	SFCLT	4	
No	2015-012	Pigeon Palace	SFCLT	6	
No	2017-002	4042 - 4048 Fulton St	SFCLT	5	
No	2013-061	534-536 Natoma St	SFCLT	5	
No	2015-015	1353-1357 Folsom St	SFCLT	3	
No	2015-051	568-570 Natoma St	SFCLT	5	
No	2015-006	308 Turk Street	SFCLT	20	
No	2018-010a	Gran Oriente Filipino Hotel	MHDC	24	
No	2020-022	1353 Stevenson	MEDA	7	

SSP with HAF Bridge Loans Taken out by MOHCD as of 2/1/2022					
12/15/17	4/28/19	60 28th St	MEDA	6	
5/24/17	7/29/19	1411 Florida	MEDA	7	
1/4/18	7/29/19	3280 17th St	MEDA	11	5
7/25/18	7/29/19	4830 Mission	MEDA	21	6
10/31/17	11/1/19	305 San Carlos	MEDA	12	2
1/29/18	12/12/19	65-69 Woodward	MEDA	6	
5/30/18	12/19/19	654 Capp St	MEDA	6	
5/30/19	4/29/20	520 Shrader	MEDA/SFHDC	7	
9/19/19	12/10/2020	3544 Taraval	MEDA	6	
11/1/19	7/26/2021	369 3rd Ave	MEDA	12	1
1/30/20	8/10/2021	2260-2262 Mission	MEDA	6	1
3/17/20	6/16/2021	3254-3264 23rd St	MEDA	6	5
6/4/20	1/27/2021	1382 30th Ave	MEDA	4	
SSP with HAF Bridge Loans still undergoing rehabilitation as of 2/1/2022:					
9/23/19	Under rehab	3154-3158 Mission	MEDA	8	2
12/23/19	Under rehab	239 Clayton	MEDA	8	
1/21/20	Under rehab	3225 24th St	MEDA	6	
6/15/20	Under rehab	566 Natoma St	MEDA	5	
7/23/20	Under rehab	2676-2682 Folsom St	MEDA	10	
3/31/21	Under rehab	168 Sickles	SFHDC	12	
12/30/21	Under Rehab	936 Geary	SFHDC/NDC	31	2

Large Sites:					
7/16/2018	4/15/2020	937 Clay Street	CCDC	73	3
5/9/2019	Under rehab	1535 Jackson	CCDC	30	
12/27/21	Under Rehab	1005 Powell	CCDC	64	2
3/19/19	Under Rehab	270 Turk St	TNDC	86	

Appendix D: Organizational Assessment Questions

1. Name of Organization
2. Name of Survey Respondent
3. Job Title of Survey Respondent
4. How many FTE (full-time employees) work at your organization?
5. How many FTE are dedicated to real estate development and housing programs?
6. What was your organization's 2019 operating budget?
7. What is your organization's projected 2020 operating budget?
8. What is your organization's Mission Statement?
9. What neighborhoods does your organization currently serve?
10. Do you have a board whose mission includes nonprofit real estate development?
11. How many board members have real estate experience? (e.g., broker, real estate banker, developer, architect, contractor)
12. Do you have any board members who are active nonprofit real estate developers?
13. Does the board have a formal relationship with legal counsel? (check all that apply)
14. Do staff members consult the board on decisions pertaining to acquisitions, financial encumbrances, and other risk factors?
15. Has the board been trained on the legal risks of real estate decisions?

16. Does the board have a real estate committee that is empowered to submit recommendations to the full board?
17. How often do staff report to the board on profits & losses, cashflow, and the organization's balance sheet?
18. How many board members understand (or have received training on) how the cashflow and balance sheet of your real estate programs impact the organization as a whole?
19. Does the organization employ a monthly bookkeeper?
20. If your organization employs a monthly bookkeeper, do they have real estate skills?
21. Does the organization have the capacity to develop monthly financial reconciliation reports?
22. Does the organization have a formal relationship with an auditor with real estate experience?
23. Does your staff have the capacity to complete the Annual Monitoring Report from the Mayor's Office on Housing and Community Development (MOHCD)?
24. Does your organization have a Chief Finance Officer or Finance Director who oversees accounting and financial systems? (Use the "Other" field to indicate if a staff member besides the CFO or Finance Director assumes this role.)
25. Does your organization have consistent documentation, oversight, and accountability processes for each property?
26. To what extent does your organization use financial modeling and projections to inform real estate decisions?
27. Does your organization have sole ownership of at least one LLC?
28. Does your organization have any memberships in an LLC as part of a joint venture with a more experienced partner?
29. Does your organization have a membership interest option on any properties, pending growth?

30. Is your real estate portfolio divided amongst different LLCs based on financing stage and/or lender?
31. Does your organization have 100% ownership of least one building?
32. Does your organization have an up-to-date Strategic Plan that covers a period of 3 or more years?
33. Do you have a strategic plan dedicated to real estate development, or does your strategic plan have a specific section for real estate programs?
34. If your organization has a current strategic plan, does the plan include a racial equity framework?
35. Does your organization have a dedicated business plan for real estate development?
36. Does your organization have an annual workplan and budget dedicated to real estate development?
37. How much cash on hand does your organization have to invest in independent or joint ventures?
38. How much in additional operational funds can your organization dedicate towards projected growth in staffing over the next 3 years?
39. What is your current total in lines of credit?
40. What is the total sum of all programmatic grant investments that your organization currently possesses?
41. How much does your organization possess in real estate capital to grow your property pipeline?
42. How many buildings per year does your organization currently plan to add to your portfolio?
43. Does your organization have an additional line of credit or surplus for working capital and reserves?
44. Does your organization have the capacity to refinance loans as needed?
45. Do you have a full-time Project Manager for real estate programs?
46. If you have a full-time Project Manager, please check all the activities that they handle on a regular basis.

47. Does your organization have an in-house Asset Manager to oversee your properties?
48. Does your organization have one or more staff members dedicated to construction management?
49. Does your organization have one or more staff members dedicated to tenant management?
50. Does your organization have a dedicated Property Manager who oversees compliance, resident services, and tenant forecasting?

Resources & Models

Small Sites Staffing Models.xlsx

Dropbox Link to Excel

	Project Details	**Start Up Organization with Capacity Building via JV**				**Breakeven/Scaling Organization**		**Scaled with Ongoing Developments**	
	Properties Acquired Annually	1		2		6		9	
	# of Units Acquired	6		12		36		54	
	# of Existing/Operating Units					90		283	
	Average Project Timeline	18 months		18 months		18 months		18 months	
	Income								
	Grants / Other Income	$0		$0		$0		$0	
	Developer Fee	$93,333		$186,667		$560,000		$840,000	
	Joint Venture Dev Fee Share	($46,667)		($93,333)		$0		$0	
	Construction Management Fee	$17,000		$34,000		$102,000		$153,000	
$105	Asset Management Fee	$7,560		$15,120		$158,760		$424,620	
	Property Management Fee	$0		$0		$0		$0	
$600	Project Revenue from Residual Receipts					$54,000		$169,800	
	Total Income	**$71,227**		**$142,453**		**$874,760**		**$1,587,420**	
	Direct Expenses								
	Staffing		**Staff Count**		**Staff Count**		**Staff Count**		**Staff Count**
	Project Managers/Supervisor	$90,000	1	$180,000	2	$285,000	3	$380,000	4
	Construction Managers	$24,000	3rd party	$36,000	3rd party	$90,000	1	$90,000	1
	Asset Managers	covered by PM	0	$22,500	0.25	$180,000	2	$360,000	4
	Accountants		0		0	$90,000	1	$180,000	2
	Property Managers	hired externally		hired externally		hired externally		hired externally	
	Resident/Community Relations	none or by grants		none or by grants		none or by grants		none or by grants	
	Employee Benefits (Ins., Health, etc)	$28,500	25%	$59,625	25%	$138,750	25%	$252,500	25%
	Operating Support/Overhead/Supplies	$45,000	39%	$56,250	24%	$87,500	14%	$137,500	14%
	Total Small Sites Staff	**$187,500**	**1**	**$354,375**	**2.25**	**$871,250**		**$1,400,000**	
	(Deficit)/Surplus	**-$116,273**		**-$211,922**		**$3,510**		**$187,420**	
$25,000	Additional Developer Fee of $25k a building	**$12,500**	1/2 in JV	**$25,000**	1/2 in JV	**$150,000**		**$225,000**	
	Net (Deficit)/Surplus with Additional Fee	**-$103,773**		**-$186,922**		**$153,510**		**$412,420**	
	Net (Deficit)/Surplus with $0 Residual Receip	**N/A**		**N/A**		**$99,510**		**$242,620**	

Base Income Assumptions

Grants	Start Up CBOs need grants in the amount of the (Deficit) at the bottom	
Developer Fee	$80k at closing plus $10k/unit at completion	(Above shows recommended $105k at closing)
Joint Venture Dev Fee Share	Small organizations share Fee under a JV structure	
Construction Management Fee	$25.5k project, annualized	
Asset Management Fee	2022: $95/Unit/Month to internal AM	(Above shows recommended $105/Unit)
Property Management Fee	2022: $95/Unit/Month to PM firm	
Project Revenue from Residual Receipts	Est. $500/unit. (was $800/unit for Operating Units (2018), decreased during pandemic)	

Staffing Roles

Construction Managers: for smaller organizations, CMs are 3rd party consultants paid hourly.

Asset Manager Roles: oversight of property management, management of risks and opportunities (portfolio and pipeline), compliance and monitoring
- Estimate they can manage 90/units person including new acquisitions (10-15 buildings)

LINK TO EXCEL FILE

Accounting Roles: financial controls, book keeping, accounts reconciliation.
- 0.5 staff at 1-10 buildings with pipeline of 1-2 new projects per year,
- 1 staff at 10 or more buildings, pipeline of 5 per year,
- 2 staff at 20 or more buildings, pipeline of 5-10 per year.

Operating Support: Allocation of E.D/Senior Leadership time for mentoring, project support, and strategic planning. More support needed for start up organizations with fewer PM staff.

HOUSING ACCELERATOR FUND

TO: Jonah Lee, Director of Portfolio Management & Preservation
Lydia Ely, Deputy Director, Housing
Eric Shaw, Director
San Francisco Mayor's Office of Housing and Community Development (MOHCD)

CC: Viviana Lopez, Caroline McCormack

FROM: Rebecca Foster & Kate Hartley, San Francisco Housing Accelerator Fund

DATE: February 26, 2021

RE: San Francisco Market Analysis

Overview

Pursuant to the grant agreement dated July 1, 2020, The San Francisco Housing Accelerator Fund (HAF), together with the California Housing Partnership Corporation (CHPC) in a consulting role, have created an actionable, comprehensive, and detailed data tool to address MOHCD's need for quantitative and qualitative information about San Francisco's Small Sites real estate market. HAF has analyzed the data produced and will recommend strategies below for MOHCD and its partners to achieve MOHCD's stated Small Sites Program (SSP) NOFA goals: improving implementation; scaling the program to reach more residents and buildings in all neighborhoods throughout the City, with a special focus on underserved neighborhoods; and creating program sustainability.

The data tool created is an electronic dataset of all multifamily buildings larger than 3 units (including SROs), with a special focus on sales transactions in the last six months and buildings currently for sale in San Francisco. The dataset includes the following datapoints and can be sorted and filtered along these criteria:

- Asking and purchase price, historical sales price, and date of last sale
- Unit count (with an ability to sort by categories: 3-9/10-25/26-49/50+ units)
- Vacancies
- Average Rent
- Building Owner
- San Francisco Department of Building Inspection Notice of Violations
- Building Eviction Notices
- San Francisco Supervisorial District
- Property Rent Control Status

Accompanying the data tool and this report will be a toolkit that thoroughly documents CHPC's methodology for collecting, processing, and analyzing the data, so that it may be replicable in the future. The toolkit notes that a basic understanding of Microsoft Excel and an active CoStar license will be required, and the ability to download and use certain open-source programming and spatial analysis tools, such as Python, QGIS, ArcGIS, or R.

Data and Key Findings

In setting out the goal of creating this electronic dataset, the following questions were outlined that the data would help inform for the purposes of furthering MOHCD's long-term anti-displacement efforts in the most effective and efficient way possible:

1. Which neighborhoods/districts present the greatest opportunity for acquisitions from a cost perspective?
2. Which neighborhoods demand the greatest focus from a displacement risk perspective, including, e.g., communities that combine these characteristics: low preservation history; low-income residents; high displacement risk?
3. What building typologies present the most impactful opportunities? For example, which building types optimize unit count, cost-efficiency, and mitigation of risk to residents most vulnerable to displacement?

To assist HAF in answering these questions, CHPC compiled data from a variety of sources to inform recommendations grounded in data. CoStar, a leading provider of real estate data and analytics, is the primary resource utilized here for identifying key data points such as prior building transactions and their corresponding for-sale price, date of sale, and building typology. CoStar culls public records, multiple listing services, and performs direct market research to identify these data points and presents them in an easily accessible database, dating back decades. There are, however, many circumstances where specific sales price information is not available. As a result, a building transaction may still be represented in this dataset, but without all relevant information. The majority of this analysis focuses only on building transactions for properties that fall under San Francisco's rent ordinance, using build-year as a proxy. The dataset is built so that buildings built after 1979 could also be included in the analysis. Additional data sources include San Francisco's Office of the Assessor-Recorder, Department of Building Inspection, Rent Board, San Francisco Open Data, the U.S. Department of Housing and Urban Development (HUD), and the U.S. Census Bureau.

It is critical to note that the period in which this analysis describes the San Francisco real estate market, from February 3, 2020 through August 3, 2020, overlaps with the onset of strict COVID-19-related restrictions beginning in March 2020. While the immediate effects of the COVID-19 pandemic on the San Francisco real estate market may be captured by some of the data in this dataset, continued analysis and more recent sales information will be necessary to identify any possible lingering effects of COVID-19.

Finally, we have pulled key data from the larger dataset and created tables that highlight the most relevant information for MOHCD's program improvement and implementation goals.

Question 1: Which neighborhoods/districts present the greatest opportunity for acquisitions from a cost perspective?

Neighborhoods	Properties for Sale	Average Number Of Units	Average For Sale Price	Average For Sale Price/Unit	Average Building Age (Years)
Tenderloin	2	41	$13,500,000	$289,286	104
Visitacion Valley	1	5	$1,495,000	$299,000	94
Outer Richmond	3	14	$4,865,333	$404,429	87
Bernal Heights	2	20	$4,895,000	$407,917	117
Western Addition	2	9	$3,720,000	$422,083	107
Chinatown	7	15	$4,232,714	$440,719	111
Inner Richmond	1	3	$1,495,000	$498,333	121
Portola	1	3	$1,500,000	$500,000	44
Inner Sunset	4	7	$3,630,000	$534,063	71
Bayview Hunters Point	1	5	$2,800,000	$560,000	90
Twin Peaks	1	10	$5,650,000	$565,000	63
South of Market	3	7	$3,858,333	$599,028	111
Castro/Upper Market	5	6	$3,584,000	$611,543	113
Mission	17	11	$5,073,059	$632,124	108
Seacliff	1	6	$3,850,000	$641,667	100
Noe Valley	4	4	$2,685,000	$668,021	101
Marina	3	22	$5,997,500	$674,375	113
Sunset/Parkside	3	6	$4,181,667	$715,101	92
Lone Mountain/USF	4	5	$3,247,500	$716,316	71
Presidio Heights	2	4	$2,625,000	$770,833	118
Nob Hill	7	35	$8,057,000	$839,167	102
Russian Hill	8	7	$5,792,250	$850,169	110
Hayes Valley	5	5	$3,924,200	$856,328	125
Outer Mission	1	6	--	--	93
Grand Total	**88**	**11**	**$4,703,265**	**$635,725**	**103**

Table 1: Neighborhoods sorted by average for sale price per unit for properties actively listed on the market as of August 3, 2020, sorted from lowest to highest.

The data in Table 1 is from CoStar and outlines all neighborhoods that had properties listed for sale as of August 3, 2020. At the time of the analysis, 88 properties were actively listed for sale. The average per unit price for all properties listed for sale in which there was sales data available was $636K and the average sale price was $4.7MM. Of the 24 neighborhoods listed, 12 had an average for sale price per unit below $600K.

The data in Table 2 below outlines all the neighborhoods which had properties trade within the six-month period ending on August 3, 2020. Of the 31 neighborhoods in which trades occurred, the average price per unit of sale was below $600K in 18 of the neighborhoods. 6 of the neighborhoods in Table 1 with for-sale prices per unit listed below $600K also fall into the same category in Table 2: Bayview Hunters Point, South of Market, Western Addition, Twin Peaks, Outer Richmond, and the Inner Sunset.

A few stark disparities appear between average for-sale pricing in Table 1 and average executed pricing for the same neighborhood in Table 2. These differences highlight the need to understand the data on a specific property level. They also support the conclusion that neighborhoods should not be viewed in a static or monolithic way. That is, even in a typically high-priced neighborhood such as Russian Hill, for example, cost-effective acquisition opportunities can arise. Below please find explanations for large discrepancies between Table 1 and Table 2 averages in three neighborhoods:

- Hayes Valley
    - Average Asking Price Per Unit - $856K vs. Last Sale Price Per Unit - $353K
    - In Hayes Valley, due to the nature of the CoStar data, sales data is only available for two of the 12 transactions performed over the last six months. Additionally, one of these transactions was likely not an arms-length sale. Therefore, for the purposes of this analysis, it is more important to consider for-sale building asking price instead of considering the last six months sales data.
- Russian Hill:
    - Average Asking Price Per Unit - $850K vs. Last Sale Price Per Unit - $359K
    - In Russian Hill, there is a similar issue with transaction data availability. However, the primary source of the lower average last sale per unit price is due to a 70-unit residential hotel transaction (905 Columbus Ave) that occurred in May 2020 at $141K per unit.
- Mission
    - Average Asking Price Per Unit - $632K vs Last Sale Price Per Unit - $402K
    - Cumulatively, the Mission has the highest volume of properties listed for sale and properties sold within the last 6 months. At the time of this analysis, there were eight 3–5-unit properties listed for sale with a price per unit ranging from $460K to upwards of $1.35MM. Few properties of that typology sold during the last six months, however. Analyzing a neighborhood with as high a transaction volume as the Mission underscores the importance of closely monitoring new acquisition opportunities on a building-by-building basis. Statistically, there will be more opportunities to acquire buildings at a financially feasible price here. And yet the Mission, with its striated housing market, also reflects many of the realities of displacement and gentrification across San Francisco. Buildings that are selling at price points over $600K per unit are likely already lost to the speculative market. The volume of housing that is still currently affordable to long-term, lower-income residents in these transforming neighborhoods could continue to dwindle without immediate intervention.

Neighborhoods	Properties Sold	Average Number Of Units	Average Last Sale Price	Average Last Sale Price/Unit	Average Building Age (Years)
Lone Mountain/USF	7	7	$3,126,500	$281,133	95
Bayview Hunters Point	2	7	$2,850,000	$285,000	57
Hayes Valley	12	12	$3,730,500	$353,458	106
Russian Hill	13	14	$6,040,643	$359,375	102
South of Market	2	5	$2,505,000	$360,000	112
Western Addition	7	18	$4,560,000	$366,222	103
Sunset/Parkside	7	6	$2,194,375	$369,635	73
Twin Peaks	3	9	$3,100,000	$378,889	55
Outer Richmond	19	5	$2,399,800	$380,053	79
Mission	25	6	$2,480,833	$401,713	107
North Beach	15	7	$2,260,000	$403,889	100
Financial District/South Beach	1	17	$7,300,000	$429,412	101
Nob Hill	26	17	$3,612,400	$432,675	106
Marina	21	12	$6,492,583	$484,872	95
Inner Sunset	9	7	$2,431,000	$486,200	101
Pacific Heights	9	10	$6,149,250	$496,517	109
Presidio Heights	1	4	$2,175,000	$543,750	111
Castro/Upper Market	5	7	$2,566,667	$563,889	104
Haight Ashbury	10	7	$4,400,000	$670,000	107
Noe Valley	10	6	$4,809,250	$715,167	101
Seacliff	1	6	–	--	96
Excelsior	2	4	–	--	62
Glen Park	1	10	–	--	93
Potrero Hill	3	6	–	--	72
Oceanview/Merced/Ingleside	1	6	–	--	74
Bernal Heights	3	6	–	--	97
Tenderloin	3	18	$8,000,000	--	100
Inner Richmond	6	8	–	--	73
Outer Mission	1	6	–	--	63
Portola	1	3	–	--	56
Chinatown	7	9	–	--	105
Grand Total	**233**	**10**	**$3,820,790**	**$449,256**	**97**

Table 2: Neighborhoods sorted by average sale price per unit for properties sold between February 3, 2020 and August 3, 2020, sorted from lowest to highest.

Keeping in mind the caveats discussed above, Tables 1 & 2 provide a good snapshot for determining which neighborhoods are likely to offer the most financially feasible acquisitions for SSP. Notably, the Tenderloin, Visitacion Valley, Lone Mountain/USF, and Bayview Hunters Point neighborhoods all had for-sale or recently sold buildings trading for under $300,000 per unit. However, excluding Lone Mountain/USF, these neighborhoods all had few buildings for sale or sold over the past 6 months. The only neighborhoods with more than 6 active for-sale listings (see Table 1) were Chinatown, the Mission, Nob Hill, and Russian Hill. And of that list, only the Chinatown properties averaged a for-sale price under $600K a unit. As for historical sales, Hayes Valley and Russian Hill saw 12 and 13 transactions, respectively, at average per unit prices under $400K. As described above, however, these averages are not fully representative samples, as one very low-cost transaction in Hayes Valley was recorded and one high-unit count building transaction occurred in Russian Hill.

Acquisition prices between $300K and $550K fall within the range of HAF's historical record of acquisition and rehabilitation loans to community-based organizations. The eight Small Sites buildings in the current HAF loan portfolio were acquired within a range of $324K to $541K per residential unit, with one $856K outlier (3154-3158 Mission, El Rio). All the properties which had an acquisition cost above $500K per residential unit either had commercial unit(s) or will have accessory dwelling units (ADUs) added within the building footprint. This range also holds for Small Sites properties for which HAF provided bridge financing that MOHCD has repaid.

In summary, the CHPC dataset offers these findings and conclusions regarding the question of which neighborhoods/districts present the greatest opportunity for acquisitions from a cost perspective:

- Considering only per-unit acquisition pricing data available (note again that not all transactions supplied full data), the neighborhoods below are ranked in order of lowest-cost opportunities:
    - Tenderloin
    - Visitacion Valley
    - Outer Richmond
    - Bernal Heights
    - Western Addition
    - Chinatown
    - Inner Richmond
    - Portola
    - Inner Sunset
    - Bayview Hunters Point
    - Twin Peaks
    - South of Market
- Acquisition price alone, however, is an incomplete analysis. An understanding of other underlying conditions, such as likely deferred maintenance of the building, area median income, displacement risk, typical unit count of buildings (for example, the average number of units per building in the Tenderloin and Nob Hill are higher than other neighborhoods), and neighborhood transaction volume will all define financial feasibility along with acquisition pricing.
- Excluding certain neighborhoods from consideration due to data indicating high *average* acquisition pricing would be a mistake, since even these high-cost districts can present compelling opportunities. The Russian Hill SRO example cited above shows that, while most of the property sales data for Russian Hill indicate out-of-reach pricing, great

opportunities still arise. Pursuing geographic equity for the Small Sites Program requires openness to acquisitions in all neighborhoods. This highlights the importance of implementing a robust COPA notice tracking system, in tandem with a quick intake/feasibility form, to allow MOHCD and community-based organizations without specific ties to such neighborhoods to make rapid decisions on whether to pursue new projects and expand the Small Sites Program footprint.

Question 2: Which neighborhoods demand the greatest focus from a displacement risk perspective, including, e.g., communities that combine these characteristics: low preservation history; low-income residents; high displacement risk?

The CHPC dataset pulled eviction notices filed for condo conversions, demolition, Ellis Actions, and owner move-ins. The data is not particularly instructive – average eviction notices were less than 1 per neighborhood [see Table 3]. This data is derived from information from the San Francisco Rent Board and is captured by the number of eviction notices recorded between all properties in that neighborhood that are currently for sale or have been sold recently. For example, if a neighborhood had five, 5-unit buildings for sale, and one of the buildings had eviction notices served to all tenants, the Average Total Eviction Notices figure would be 1.0 (5 notices over 5 buildings). In addition, eviction notices do not correlate directly to *actual* evictions, which the Rent Board does not track.

Other data sources provide further insight. The University of California, Berkeley's Urban Displacement Project (UDP) provides census tract level data for San Francisco that rates each geography's status regarding displacement, gentrification, and exclusion (current as of 2018). The risk categories UDP established range from "Low-Income/Susceptible to Displacement" to "Stable/Advanced Exclusive" [see Image 1].

Notably for the expansion and design of the Small Sites Program, much of the City's eastern neighborhoods, including Union Square, parts of the Tenderloin, the Mission, South of Market (SoMa), South Beach, Mission Bay, and Dogpatch are all either undergoing gentrification, in a state of "Advanced Gentrification" or considered "Advanced Exclusive" (i.e., generally affordable to high-income households without much income diversity). Much of the Western Addition also falls into these categories.

Large swaths of the Excelsior, Glen Park, Ingleside, the Sunset and Richmond, however, are considered "Stable – Moderate/Mixed Income", which are tracts the UDP researchers do not consider having either gentrified in earlier years (like the Mission between 1990 and 2000) or to be vulnerable now to gentrification.

The other stark conclusion drawn from the UDP data is that most of Bayview/Hunters Point, Chinatown, and significant portions of the Tenderloin remain "Low-Income/Susceptible to Displacement" [see Table 4 for neighborhood-level AMI information]. Especially in Bayview/Hunters Point and Chinatown, these are tracts with high proportions of people of color who are lower-income and where rents are significantly lower than the broader neighborhood and region. These neighborhoods are also bordered by tracts categorized as "Advanced Gentrification" and "At Risk of Becoming Exclusive".

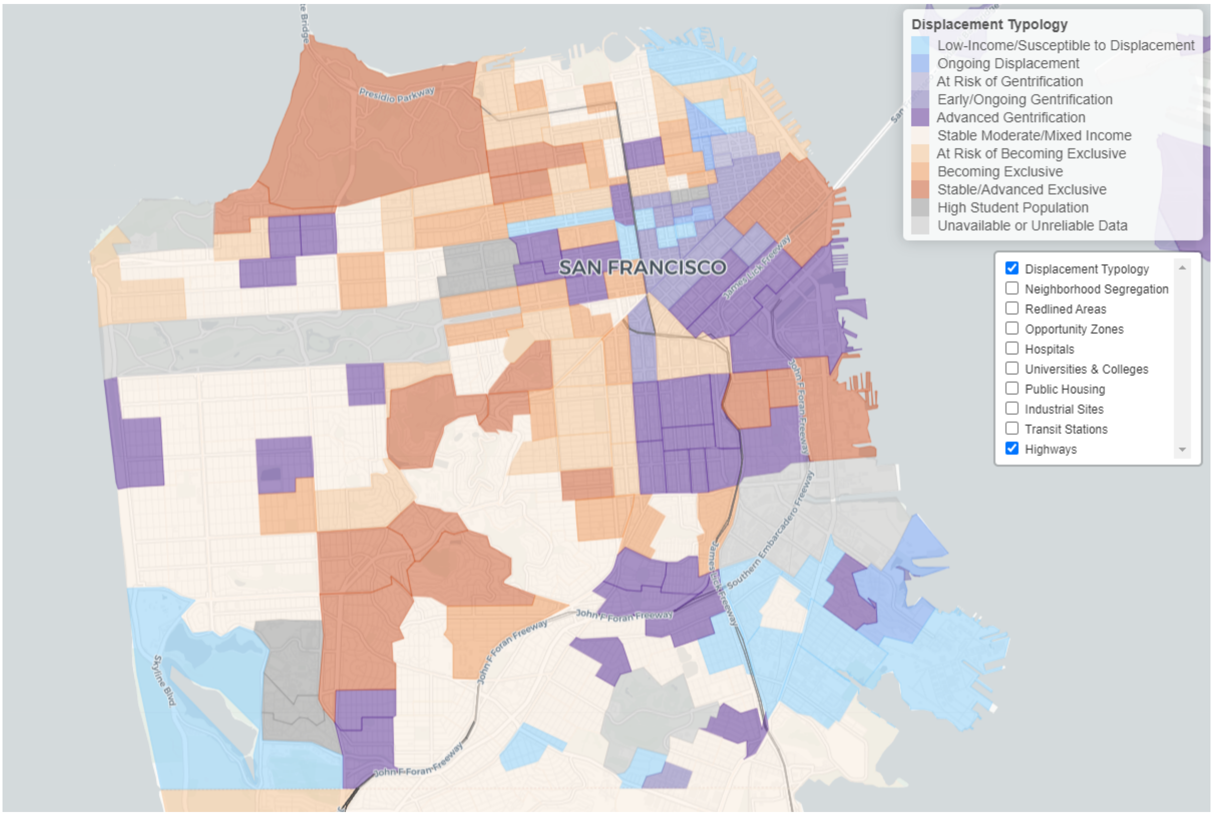


Image 1: Urban Displacement Project Map from the University of California, Berkeley, detailing displacement risk of residents by San Francisco census tract

Weaving together UDP information and data from the CHPC Market Data Tool, several summary conclusions can be drawn, though, as with most market and demographic data, it must be qualified. First, since the UDP maps are only current as of 2018, we can assume census tract changes exist that are not captured regarding household income, racial composition, and tracts' "at-risk" status (especially regarding the demographic effects of COVID-19). In addition, while we opt to talk in terms of neighborhood geographies, every City neighborhood has some mixture of "Displacement Typologies". For example, Bayview Hunters Point is primarily categorized Low-Income/Susceptible to Displacement, but it also has tracts that are categorized under Ongoing Displacement, Advanced Gentrification, and Stable Moderate/Mixed Income.

With those caveats, we can conclude:

- An investment in any census tract coded orange or purple (i.e., ranging from At Risk of Gentrification to Advanced Exclusion) that protects the housing of low- to moderate-income residents will achieve non-displacement and economic diversification goals.

- An investment in any blue-coded neighborhood (i.e., Low-Income/Susceptible to Displacement) will protect the most vulnerable residents from displacement and promote racial justice goals, since these neighborhoods have high percentages of people of color. But achieving the City's anti-displacement and racial justice goals in these neighborhoods could require higher than typical resources, given 1) the low median incomes in those tracts (and the corresponding low level of debt leveraging available); 2) a higher than average incidence of Notices of Violations issued by DBI; and 3) in the case of the Tenderloin, higher than typical unit count per building, which may trigger seismic and structural building concerns and a high absolute value of subsidy need.
    - For the Tenderloin and, to a lesser degree, Chinatown, combining MOHCD acquisition resources (such as PASS loans and other capital funding) with Our City Our Home rental and operating subsidies authorized specifically for SRO acquisitions can provide the financing solution necessary to prevent displacement of these vulnerable residents.

Neighborhoods	Number of Properties	Average Number Of Units	Properties for Sale	Average For Sale Price	Average For Sale Price/Unit	Average Last Sale Price	Average Last Sale Price/Unit	Average Total Eviction Notices
Presidio Heights	3	4	2	$2,625,000	$770,833	$2,175,000	$543,750	0.67
Portola	2	3	1	$1,500,000	$500,000	–	--	0.50
Bernal Heights	5	12	2	$4,895,000	$407,917	$2,850,000	$101,786	0.20
Nob Hill	33	20	7	$8,057,000	$839,167	$8,199,625	$388,583	0.18
Hayes Valley	17	10	5	$3,924,200	$856,328	$2,917,200	$383,744	0.18
Mission	42	8	17	$5,073,059	$632,124	$2,796,250	$373,818	0.14
Haight Ashbury	10	7	0	--	--	$4,400,000	$670,000	0.10
Lone Mountain/USF	11	7	4	$3,247,500	$716,316	$3,667,667	$331,362	0.09
Noe Valley	14	5	4	$2,685,000	$668,021	$4,809,250	$715,167	0.07
Marina	24	14	3	$5,997,500	$674,375	$5,447,563	$457,437	0.04
Inner Sunset	13	7	4	$3,630,000	$534,063	$2,520,667	$474,133	0.00
Potrero Hill	3	6	0	--	--	–	--	0.00
Inner Richmond	7	7	1	$1,495,000	$498,333	–	--	0.00
Excelsior	2	4	0	--	--	–	--	0.00
Russian Hill	21	11	8	$5,792,250	$850,169	$4,577,418	$439,273	0.00
South of Market	5	6	3	$3,858,333	$599,028	$2,461,667	$377,917	0.00
Tenderloin	5	29	2	$13,500,000	$289,286	$9,700,000	$250,158	0.00
Visitacion Valley	1	5	1	$1,495,000	$299,000	$800,000	$160,000	0.00
Financial District/South Beach	1	17	0	--	--	$7,300,000	$429,412	0.00
Castro/Upper Market	10	7	5	$3,584,000	$611,543	$2,566,667	$563,889	0.00
Glen Park	1	10	0	--	--	–	--	0.00
Chinatown	14	11	7	$4,232,714	$440,719	$2,689,000	$326,528	0.00
Bayview Hunters Point	3	6	1	$2,800,000	$560,000	$2,850,000	$285,000	0.00
Seacliff	2	6	1	$3,850,000	$641,667	–	--	0.00
North Beach	15	7	0	--	--	$2,260,000	$403,889	0.00
Sunset/Parkside	10	6	3	$4,181,667	$715,101	$2,805,500	$391,163	0.00
Oceanview/Merced/Ingleside	1	6	0	--	--	–	--	0.00
Twin Peaks	4	9	1	$5,650,000	$565,000	$3,900,000	$435,926	0.00
Outer Mission	2	6	1	--	--	$4,000,000	$666,667	0.00
Western Addition	9	16	2	$3,720,000	$422,083	$4,560,000	$366,222	0.00
Outer Richmond	22	7	3	$4,865,333	$404,429	$2,824,833	$340,282	0.00
Pacific Heights	9	10	0	$6,750,000	$562,500	$6,149,250	$496,517	0.00
Grand Total	**321**	**10**	**88**	**$4,727,631**	**$634,809**	**$4,136,622**	**$421,013**	**0.07**

Table 3: Neighborhoods sorted by Average Total Eviction Notices

Neighborhoods	Number of Properties	Average Number Of Units	Properties for Sale	Average For Sale Price	Average For Sale Price/Unit	Average Last Sale Price	Average Last Sale Price/Unit	Average Building Age (Years)	Average Median Household Income of Tract (2018)	Average % of SF HMFA's Median Family Income (2020)
Chinatown	14	11	7	$4,232,714	$440,719	$2,689,000	$326,528	108	$31,128	22%
Tenderloin	5	29	2	$13,500,000	$289,286	$9,700,000	$250,158	102	$35,752	25%
Financial District/South Beach	1	17	0	–	–	$7,300,000	$429,412	101	$63,958	45%
Portola	2	3	1	$1,500,000	$500,000	--	–	50	$65,875	46%
Bayview Hunters Point	3	6	1	$2,800,000	$560,000	$2,850,000	$285,000	74	$66,018	46%
South of Market	5	6	3	$3,858,333	$599,028	$2,461,667	$377,917	111	$66,990	47%
Visitacion Valley	1	5	1	$1,495,000	$299,000	$800,000	$160,000	94	$75,455	53%
Excelsior	2	4	0	–	–	--	–	62	$75,708	53%
Oceanview/Merced/Ingleside	1	6	0	–	–	--	–	74	$77,260	54%
North Beach	15	7	0	–	–	$2,260,000	$403,889	100	$87,530	61%
Outer Richmond	22	7	3	$4,865,333	$404,429	$2,824,833	$340,282	80	$89,711	63%
Western Addition	9	16	2	$3,720,000	$422,083	$4,560,000	$366,222	104	$91,992	64%
Nob Hill	33	20	7	$8,057,000	$839,167	$8,199,625	$388,583	105	$93,932	66%
Outer Mission	2	6	1	–	–	$4,000,000	$666,667	78	$95,972	67%
Inner Richmond	7	7	1	$1,495,000	$498,333	--	–	79	$104,221	73%
Sunset/Parkside	10	6	3	$4,181,667	$715,101	$2,805,500	$391,163	78	$104,845	73%
Mission	42	8	17	$5,073,059	$632,124	$2,796,250	$373,818	108	$110,581	77%
Lone Mountain/USF	11	7	4	$3,247,500	$716,316	$3,667,667	$331,362	88	$111,829	78%
Twin Peaks	4	9	1	$5,650,000	$565,000	$3,900,000	$435,926	57	$112,818	79%
Inner Sunset	13	7	4	$3,630,000	$534,063	$2,520,667	$474,133	92	$125,153	87%
Presidio Heights	3	4	2	$2,625,000	$770,833	$2,175,000	$543,750	116	$125,651	88%
Hayes Valley	17	10	5	$3,924,200	$856,328	$2,917,200	$383,744	112	$129,374	90%
Russian Hill	21	11	8	$5,792,250	$850,169	$4,577,418	$439,273	105	$136,453	95%
Castro/Upper Market	10	7	5	$3,584,000	$611,543	$2,566,667	$563,889	108	$140,285	98%
Bernal Heights	5	12	2	$4,895,000	$407,917	$2,850,000	$101,786	105	$141,500	99%
Potrero Hill	3	6	0	–	–	--	–	72	$146,990	103%
Marina	24	14	3	$5,997,500	$674,375	$5,447,563	$457,437	97	$147,379	103%
Pacific Heights	9	10	0	$6,750,000	$562,500	$6,149,250	$496,517	109	$155,651	109%
Noe Valley	14	5	4	$2,685,000	$668,021	$4,809,250	$715,167	101	$158,510	111%
Seacliff	2	6	1	$3,850,000	$641,667	--	–	98	$164,750	115%
Haight Ashbury	10	7	0	–	–	$4,400,000	$670,000	107	$167,724	117%
Glen Park	1	10	0	–	–	--	–	93	$173,372	121%
Grand Total	**321**	**10**	**88**	**$4,727,631**	**$634,809**	**$4,136,622**	**$421,013**	**99**	**$112,507**	**79%**

Table 4: Neighborhoods sorted from lowest to highest Area Median Income

Question 3: What building typologies present the most impactful opportunities? For example, which building types optimize unit count, cost-efficiency and high-risk mitigation?

The average unit count for all buildings listed for sale at the time of this analysis is 11 units and the average unit count for all buildings sold within the last six months is 10 units. Except for the highly dense, downtown neighborhoods that top the list in Table 5 below (Table 5 combines buildings for sale and in the 6-month lookback), most transacting buildings fell within the 5–14-unit range, with the Mission's high volume of 42 transactions averaging 8 units per building providing a good frame for the typical SSP transaction.

Neighborhoods	Number of Properties	Average Number Of Units
Tenderloin	5	29
Nob Hill	33	20
Financial District/South Beach	1	17
Western Addition	9	16
Marina	24	14
Bernal Heights	5	12
Chinatown	14	11
Russian Hill	21	11
Glen Park	1	10
Pacific Heights	9	10
Hayes Valley	17	10
Twin Peaks	4	9
Mission	42	8
Haight Ashbury	10	7
Inner Richmond	7	7
North Beach	15	7
Inner Sunset	13	7
Outer Richmond	22	7
Lone Mountain/USF	11	7
Castro/Upper Market	10	7
Potrero Hill	3	6
South of Market	5	6
Outer Mission	2	6
Oceanview/Merced/Ingleside	1	6
Seacliff	2	6
Bayview Hunters Point	3	6
Sunset/Parkside	10	6
Noe Valley	14	5
Visitacion Valley	1	5
Excelsior	2	4
Presidio Heights	3	4
Portola	2	3
Grand Total	**321**	**10**

Table 5: Neighborhoods sorted by average unit count per building sale and listing, sorted largest to smallest.

The transactions occurring in highly dense neighborhoods such as the Tenderloin and Nob Hill require property-level analysis, since they are likely to combine both SROs (especially in the Tenderloin, evidenced by its low average acquisition pricing) and higher-end, pre-war, historic luxury apartments (especially in Nob Hill, such as 1000 Mason). Acquisitions in these dense neighborhoods must also consider the likelihood of seismic and structural upgrade needs, which can derail financial feasibility even if acquisition pricing is very low. In addition, for the Tenderloin especially, protecting existing SRO residents from displacement through an SSP acquisition may require foregoing debt leveraging, since SRO resident incomes may be too low to cover both operating expenses and debt service. And in some cases, the SSP goal of a stabilized average rent rate set at 80% AMI may be close to market, if not over it. As described above under Question #2, acquisitions of dense, high-unit-count SRO buildings with very low-income residents are best considered through a financing plan that combines MOHCD and Our City Our Home funding. This approach can help retain SSP's focus on building acquisitions in the 5-25-unit range that can also achieve an average stabilized rent set for 80% AMI households.

Within this narrower frame, considering building type categorically may help inform possible SSP Underwriting Guideline amendments. Looking at all properties for sale or recently sold, bundled by the size of the building, Table 6, below, indicates that the best-priced buildings may be in the 26-49-unit range (subject to the property-level review requirements described above). However, the vast majority of properties listed for sale or recently sold have 25 units or less, which corresponds to the focus of the Small Sites Program. Table 6 provides interesting information for this building cohort. For both the 3-9- and 10-25-unit categories, transactions concluded in the last 6 months came in at around $450,000 per unit, with pricing for 3-9-unit buildings almost $20,000 less per unit than the bigger buildings. As far as buildings currently offered for sale at the time of the analysis, the 10–25-unit cohort again comes in around $450K/unit. However, we see a huge spike in the value of currently offered 3–9-unit buildings, at about $708,000 per unit in acquisition pricing.

Further analysis of the data is required to understand this huge price jump for the 3–9-unit category. It could be skewed, for example, due to an anomalous number of buildings for sale in higher-cost neighborhoods at the time of this analysis. However, given the other three data points (i.e., 3-9 unit and 10–25-unit buildings sold in the last 6 months and 10–25-unit buildings for sale as of August), it appears safe to assume that a $450,000 per-unit sales price for SSP properties should be considered typical, whether for the 3-9- or 10-25-unit cohort. And, once tested, if this assumption is correct, it may indicate the need for reconsideration of MOHCD's SSP Underwriting Guidelines, which currently allow an additional $75,000 per unit in subsidy for buildings of 3-9 units.

Unit Range	Number of Properties	Average For Sale Price Per Unit	Average Last Sale Price Per Unit
3-9	219	$707,956	$443,155
10-25	78	$448,757	$459,654
26-49	10	$291,027	$118,863
50+	7	$351,471	$255,461
	314	**$634,809**	**$421,013**

Table 6: Distribution of buildings for sale or sold in San Francisco.

The CHPC Dataset offers these conclusions regarding which building typologies present the most impactful opportunities:

- The Tenderloin's highest average unit count for buildings transacted and lowest per-unit acquisition pricing may indicate the greatest potential impact for protection of vulnerable residents, but may not indicate financial feasibility, given a third relevant datapoint - an average AMI of 25% for the neighborhood. Protection of residents earning 25% AMI would most certainly indicate the need for permanent operating subsidy. Generally speaking, building typology, pricing and neighborhood must be considered together and certain buildings will bring with them conditions that do not allow simultaneous achievement of multiple goals, i.e., financial feasibility and protection of ELI residents.
- Buildings with 26-49 units appear to offer the most attractive acquisition pricing. Special attention to those buildings may be advised, and a rapid evaluation of location, rent levels and building condition could yield the best opportunities.
- Pending further research, there may be no significant difference in acquisition pricing between buildings with 3-9 units and those with 10-25 units. If verified, it may argue for a narrowing of the term sheet subsidy limits between these building typology categories.

Program Recommendations

HAF outlines three strategies below which each target a key leverage point to create a more robust Acquisition & Preservation Program. MOHCD's policy priorities will inform strategy selection; our recommendations focus on the most efficient and sustainable implementation plan based on the data presented above.

➢ **Strategy A. Maximize Total Number of Units Acquired With A Focus on Cost**
  - If MOHCD prioritized the goal of creating as much affordable housing as possible through acquisitions, the best strategy would be to focus resources on neighborhoods with the lowest acquisition costs that also correspond to the Stable/Moderate Mixed-Income census tracts identified by the Urban Displacement Project. Low project costs combined with neighborhood locations that can support stabilized rents at 80% AMI maximizes debt servicing potential,

reduces MOHCD's per-unit subsidy needs, and enables the conversion to permanent affordable housing of the most homes possible.

- The best neighborhoods for achieving this goal appear to be the Outer Richmond, Sunset, Visitacion Valley, the Excelsior, and Bernal Heights. However, these neighborhoods also have historically low transaction volumes. Focusing on these neighborhoods while still conducting a thorough and steady market review that also prioritizes buildings citywide with purchase prices less than $450K/unit and rent rolls that seem able to maintain the 80% AMI stabilized rent average would be a necessary component of achieving the goal.
- To maximize the number of homes preserved as affordable housing, strict adherence to term sheet subsidy limits would be required. In the due diligence process, a clear "not-to-exceed" term sheet subsidy value would enable quick feasibility assessments of prospective projects. A corollary requirement would be setting subsidy limits at realistic levels given market conditions, so regular updating of both the CHPC Data Tool and appropriate funding terms would be required.
- This strategy assumes that developer partners are willing to pursue acquisitions that may not meet their own internal goals, such as the pursuit of racial justice for a particular community or the desire to serve the most vulnerable tenants, who cannot afford rents that pay for much (or any) debt service.
- To the extent MOHCD secures funding in future years that allows for it, pursuit of dual goals may be advised, i.e., encouragement of developers to bring in term sheet-conforming projects **and** creation of a financing set-aside for higher-cost transactions that protect the most vulnerable residents as outlined in other Strategies.

➢ **Strategy B. Prioritize Geographic Equity And Broad Allocation of Resources**

- If MOHCD prioritized the goal of investing Small Sites resources in all San Francisco neighborhoods, the best strategy would be to modify current term sheet subsidy limits to reflect different neighborhoods' different market conditions.
  - Defining specific neighborhood investment targets and providing clarity regarding the policy rationales underlying geographic distribution and "equity" will be required.
- Using the current sales data for the Inner Richmond and the Castro/Upper Market neighborhoods as a comparison example, the data shows that there is a roughly $113,000 per unit acquisition price differential between them (approximately 23%), with the average sales price for the Inner Richmond at $498,000 and, for Castro/Upper Market, $612,000. Castro/Upper Market also has an average neighborhood AMI of 98%, while the Inner Richmond's AMI is 73%. To help mitigate the presumed higher cost of a Castro/Upper Market SSP transaction, MOHCD could allow a higher stabilized AMI for the neighborhood that reflects submarket conditions.

        - For example, MOHCD sets the 80% rent for a 1BR at $2,050. At 100% AMI, it is $2,563. Assuming a 5% vacancy, 1.15 DSCR, and $7,500 PUPA operating expense, this one-bedroom generates approximately $126,000 in additional PASS debt leveraging at 100% AMI over 80% rents. And 100% MOHCD rents still qualify for the state's welfare tax exemption.
        - Coupling a higher allowable average rent (that is still well below the particular neighborhood's market rent) with the higher costs of buildings in more expensive neighborhoods could promote geographic equity without diverting resources disproportionately to those higher-cost sites.
    - On the other end of the income range, achieving geographic equity may require higher levels of investment in the City's lowest-cost neighborhoods, e.g., Chinatown, the Tenderloin and Bayview/Hunters Point, due to very low-income tenants' inability to pay rents that can service debt and reduce MOHCD subsidy values.
    - The majority of SSP acquisitions are concentrated in the Mission, a result of MEDA's strong commitment to keeping Latinx families in the neighborhood. To expand SSP's geographic reach, current SSP developers and new developers will need encouragement and incentives. A straight-forward incentive would be to increase developer fees for projects in underserved neighborhoods (e.g., acquisition closings would provide $100,000 rather than $80,000 in fees). Increasing the fee for underserved neighborhood projects also mitigates the added operational costs for developers who cannot leverage proximity between buildings to reduce project management costs. Geographic equity likely also requires increases in current asset and property management fee caps, since long-term management of scattered sites across neighborhoods is much more costly than managing a portfolio of properties centrally located in one or two contiguous neighborhoods.
    - In the pursuit of bringing additional CBO developers into SSP, one issue to guard against is encouraging a neighborhood-specific focus in districts that have a very low transaction volume (unlike the Mission). True organizational sustainability requires maintaining a relatively large unit count over time, and purchasing one or two buildings a year, with the low level of accompanying asset and property management fees relative to the cost of maintaining necessary staffing, could put a CBO into a precarious financial situation.

- **Strategy C. Promote Program Expansion, Effectiveness and Sustainability**
    - While the principal SSP participants have tremendous strengths, the Small Sites Program is labor-intensive and demands multiple layers of competent staffing and long-term organizational commitments. To provide additional CBO capacity, attract new developers willing to work in all San Francisco neighborhoods, and stabilize existing SSP participants, increasing project management, asset management, and property management fees may be advised.

- As described above in the discussions regarding maximization of impact and building typology, committing to a thorough and ongoing review of market data can direct resources to the best deals that emerge through COPA (and off-market relationships) while also ensuring that term sheet targets are realistic. Creating the ability to immediately execute on great per-unit price opportunities in the 26–49-unit range, for example, could significantly increase the total SSP unit count while also achieving other program goals.
- As funding allows (and as described above in various report sections), creating parallel categories of spending priorities with their own specific strategies may be necessary in order to achieve MOHCD's multiple goals, e.g.:
  - Pursuing the best purchase pricing possible for SROs in low-cost neighborhoods and partnering with HSH to fund operating subsidies.
  - Setting a target goal for lower-cost, 80% AMI workforce housing while also targeting more middle-income housing in higher-cost neighborhoods.
  - Creating special terms for very vulnerable residents (e.g., seniors on fixed incomes), such as higher-level subsidies for those residents and a greater allowance for income mixing that can help cross-subsidize extremely low-income tenants.

Implementing a combination of strategies is recommended as part of MOHCD's continued Small Sites Program refinement. An effective program will continue to have robust participation from SSP participants such as MEDA, encourage new developer participation, and keep costs down, while also pursuing equity goals and aligning developer incentives accordingly.

Finally, as San Francisco deals with the COVID-19 pandemic, it is more important than ever to create the capacity to respond quickly to market opportunities. COPA, especially if combined with robust and current market knowledge, offers an incredibly powerful tool to take advantage of cost-effective, equitable, and impactful housing opportunities that can ensure that San Francisco remains a diverse, vibrant, and compassionate city for all.

San Francisco Small Sites Program: *Project Intake & Preliminary Assessment*

Green shade = User Input

PROJECT INFORMATION	
Developer Name	Local CBO
Property Address	1234 Property Place
Neighborhood/Sup District	1-11
Residential Units	12
Commercial Units	0
Parking Spaces	12
Nonconforming Spaces (if any)	0
Property Status	Post-COPA Listing
If PSA Executed, Relevant Dates	
Execution	
Due Diligence Release	
Closing	
Extention Option	

MOHCD FUNDING	VALUE	PER UNIT
Total Project Cost	**5,842,816**	**486,901**
PASS Mortgage	**3,217,455**	**268,121**
MOHCD Gap	**2,625,361**	**218,780**

PASS MORTGAGE TERMS		
Interest	2.58%	
Term	40	Years
DSCR	1.10	

BRIDGE FINANCING	18	Months
1ST DOT	5,601,303	4.50%
Borrower Equity	114,312	2.00%

PROJECT COST ASSUMPTIONS		Notes/Per Unit	
Acquisition Related			
Purchase	3,850,000	320,833	
Escrow & Clsg	19,250	0.50%	
Appraisal	7,000		
Site Due Diligence	40,000	*Or best est.*	
Legal	25,000		
Subtotal Acquisition	**3,941,250**		
Rehabilitation			
Hard Costs	850,000	70,833	
ADUs	-	150,000	
Contingency	153,000	18%	*Incl. LBP & ACM*
GC OHP	150,450	15%	
Permits	34,000	4%	*Of Hard Costs*
Other Hard Costs			
Subtotal Rehab	**1,187,450**		
Soft Costs			
Architect & Engr	29,750	3.50%	
Constr. Mgr	25,500		
Insurance			
Taxes		1.18%	
Other Soft Costs			
Soft Contingency	8,288	15%	
Subtotal Soft Costs	63,538		
Bridge Financing			
Origination Fee	65,290	1.25%	
Interest	378,088		
Subtotal Bridge Fin	443,378		
Reserves			
Replacement	7,200	*CNA or UWG*	
Operating	-		
Subtotal Reserves	7,200		
Developer Fee		80,000	*Base Fee*
Total	200,000	10,000	*Per Unit*
Other Expenses			
Relocation	-		
	-		
	-		
	-		
	-		
Total Other Expenses	-	-	*Per Unit*
TOTAL ESTIMATED COST	**5,842,816**	**486,901**	

Operating Period Assumptions		
Vacancy	5%	
Income Inflator	2.50%	
Expense Inflator	3.50%	
Operating Exp	6,500	PUPA
PUPA Reserves	600	
Residential Units	12	
Commercial Units	-	
Total	12	
Commercial Vacancy	20%	

LINK TO EXCEL FILE

Laundry Income	
Per unit/month	25
Total Annual Laundry	3,600

Parking Income	
Paid Spaces	-
Per space/month	-
Total Annual Parking	-

Residential Income	Unit Count	AMI Level	Allowable AMI Rent	Pro Forma Rent	Utility Allowance	Net Rent	Project Net Monthly Rent	Project Net Annual Rent
0BR	0	50%	1,121	1,121	56	1,065	-	-
1BR	6	50%	1,281	1,281	65	1,216	7,296	87,552
2BR	6	50%	1,441	1,441	88	1,353	8,118	97,416
3BR	0	50%	1,601	1,601	112	1,489	-	-
[Other] SRO		50%		-				
TOTALS	12						15,414	184,968

Commercial Income/Use	Square Fee	Gross Monthly Rent	Deductions	Net to Owner Per Month	Annual Income	Per SF Monthly Rent
[Address/Corner Store]	500	2,000	-	2,000	24,000	4.00
[Address]	500	3,000	-	3,000	36,000	6.00
[Address]		-	-	-	-	0.00
[Address]		-	-	-	-	0.00
[Address]		-	-	-	-	0.00
[Address]		-	-	-	-	0.00
[Address]		-	-	-	-	0.00
[Address]		-	-	-	-	0.00
[Address]		-	-	-	-	0.00
TOTALS	1000	5,000.00	-	5,000	60,000	5.00

Available for 1st Mortgage @ DSC	**54,545**

CASH FLOW	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Year	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Residential Income	184,968	189,592	194,332	199,190	204,170	209,274	214,506	219,869	225,366	231,000	236,775	242,694	248,761	254,980	261,355	267,889	274,586	281,451	288,487	295,699
Residential Vacancy (5.0%)	(9,248)	(9,480)	(9,717)	(9,960)	(10,209)	(10,464)	(10,725)	(10,993)	(11,268)	(11,550)	(11,839)	(12,135)	(12,438)	(12,749)	(13,068)	(13,394)	(13,729)	(14,073)	(14,424)	(14,785)
Laundry	3,600	3,690	3,782	3,877	3,974	4,073	4,175	4,279	4,386	4,496	4,608	4,724	4,842	4,963	5,087	5,214	5,344	5,478	5,615	5,755
Laundry Vacancy (5.0%)	(180)	(185)	(189)	(194)	(199)	(204)	(209)	(214)	(219)	(225)	(230)	(236)	(242)	(248)	(254)	(261)	(267)	(274)	(281)	(288)
Parking	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Parking Vacancy (5.0%)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Commercial	60,000	61,500	63,038	64,613	66,229	67,884	69,582	71,321	73,104	74,932	76,805	78,725	80,693	82,711	84,778	86,898	89,070	91,297	93,580	95,919
Commercial Vacancy (20.0%)	(12,000)	(12,300)	(12,608)	(12,923)	(13,246)	(13,577)	(13,916)	(14,264)	(14,621)	(14,986)	(15,361)	(15,745)	(16,139)	(16,542)	(16,956)	(17,380)	(17,814)	(18,259)	(18,716)	(19,184)
EGI	227,140	232,818	238,639	244,605	250,720	256,988	263,412	269,998	276,748	283,666	290,758	298,027	305,478	313,114	320,942	328,966	337,190	345,620	354,260	363,117
Op Expense	78,000	80,730	83,556	86,480	89,507	92,640	95,882	99,238	102,711	106,306	110,027	113,878	117,863	121,989	126,258	130,677	135,251	139,985	144,884	149,955
Reserves	7,200	7,200	7,200	7,200	7,200	7,200	7,200	7,200	7,200	7,200	7,200	7,200	7,200	7,200	7,200	7,200	7,200	7,200	7,200	7,200
NOI	141,940	144,888	147,883	150,925	154,013	157,148	160,330	163,560	166,836	170,160	173,531	176,949	180,414	183,926	187,484	191,089	194,739	198,435	202,176	205,962
Available for 1st Mortgage @ DSC	**129,036**																			
DSCR	1.10	1.12	1.15	1.17	1.19	1.22	1.24													

			Year	2020
	MOHCD AMIs			
	0BR	1BR	2BR	3BR
20%				
25%				
30%	673	769	865	961
35%				
40%	896	1,025	1,153	1,281
50%	1,121	1,281	1,441	1,601
55%				
60%	1,345	1,538	1,730	1,921
65%				
70%	1,569	1,794	2,018	2,241
72%				
75%				
80%	1,793	2,050	2,306	2,563
90%	2,018	2,306	2,594	2,883
100%	2,241	2,563	2,883	3,203
105%				
110%	2,465	2,819	3,171	3,523
120%	2,690	3,075	3,459	3,843

San Francisco: Supportive Housing *Project Intake & Preliminary Assessment*

Green shade = User Input

PROJECT INFORMATION	
Developer Name	Local CBO
Property Address	1234 Property Place
Neighborhood/Sup District	1-11
Residential Units	12
Residential Beds (if relevant)	24
Commercial Units	0
Parking Spaces	12
Nonconforming Spaces (if any)	0
Property Status	Post-COPA Listing
If PSA Executed, Relevant Dates	
Execution	
Due Diligence Release	
Closing	
Extention Option	

MOHCD FUNDING	VALUE	PER UNIT	PER BED
Total Project Cost	#REF!	#REF!	N/A

BRIDGE FINANCING	18	Months
1ST DOT	#REF!	4.50%
Borrower Equity	#REF!	2.00%

PROJECT COST ASSUMPTIONS		Notes/Per Unit	
Acquisition Related			
Purchase	3,850,000	320,833	
Escrow & Clsg	19,250	0.50%	
Appraisal	7,000		
Site Due Diligence	40,000	*Or best est.*	
Legal	25,000		
Subtotal Acquisition	**3,941,250**		
Rehabilitation			
Hard Costs	850,000	70,833	
ADUs	-	150,000	
Contingency	153,000	18%	*Incl. LBP & ACM*
GC OHP	150,450	15%	
Permits	34,000	4%	*Of Hard Costs*
Other Hard Costs			
Subtotal Rehab	**1,187,450**		
Soft Costs			
Architect & Engr	29,750	3.50%	
Constr. Mgr	25,500		
Insurance			
Taxes		1.18%	
Other Soft Costs			
Soft Contingency	8,288	15%	
Subtotal Soft Costs	**63,538**		
Bridge Financing			
Origination Fee	#REF!	1.25%	
Interest	#REF!		
Subtotal Bridge Fin	**#REF!**		
Reserves			
Replacement	7,200	*CNA or UWG*	
Operating			
Subtotal Reserves	**7,200**		
Developer Fee		80,000	*Base Fee*
Total	**200,000**	10,000	*Per Unit*
Other Expenses			
Relocation	-		
	-		
	-		
	-		
	-		
Total Other Expenses	-	-	*Per Unit*

Operating Period Assumptions		
Vacancy	5%	
Income Inflator	2.50%	
Expense Inflator	3.50%	
Operating Exp	6,500	PUPA
PUPA Reserves	600	
Residential Units	12	
Commercial Units	-	
Total	12	
Commercial Vacanc	20%	

TOTAL ESTIMATED COST	#REF!	#REF!

Residential Income	Unit Count	AMI Level	Allowable AMI Rent	Pro Forma Rent	Utility Allowance	Net Rent	Project Net Monthly Rent	Project Net Annual Rent
0BR	0	50%	1,121	1,121	56	1,065	-	-
1BR	6	50%	1,281	1,281	65	1,216	7,296	87,552
2BR	6	50%	1,441	1,441	88	1,353	8,118	97,416
3BR	0	50%	1,601	1,601	112	1,489	-	-
[Other] SRO		50%		-				
TOTALS	12						15,414	184,968

Commercial Income/Use	Square Fee	Gross Monthly Rent	Deductions	Net to Owner Per Month	Annual Income	Per SF Monthly Rent
[Address/Corner Store]	0	-	-	-	-	0.00
[Address]	0	-	-	-	-	0.00
[Address]		-	-	-	-	0.00
[Address]		-	-	-	-	0.00
[Address]		-	-	-	-	0.00
[Address]		-	-	-	-	0.00
[Address]		-	-	-	-	0.00
[Address]		-	-	-	-	0.00
[Address]		-	-	-	-	0.00
TOTALS	0	0.00	-	-	-	-

San Francisco Small Sites Program: *Programmatic Budget*

Note: Each Scenario is Individually Customizable

LINK TO EXCEL FILE

Key Input

Annual Budget for Small Sites	$30,000,000

Outputs

TDC Per Unit	$742,878
PASS Funds Per Unit Needed	$392,000
Subsidy Per Unit Needed	$350,878
Acquirable Units	**85.00**
PASS Mortgage Funds Needed	**$33,320,000**
PASS Payment @ 1.1 DSCR	$15,846

Program Assumptions

Assumed Acquisition PPU	$550,000
AMI Restriction	80%
Y1 Per Unit Residential Income	$24,785
Y1 Operating Expenses	$6,500
% of Portfolio as Commercial	25%
Commercial Rent $/SF Per Month	$3.00
Assumed Commercial Unit SF	1000.00
Rent Increase %	2.50%
Expense Inflator	3.50%
Residential Vacancy Assumption	10%
Commercial Vacancy Assumption	20%
Average Building Unit Count	10.00
Developer Fee (Acq)	$80,000
Developer Fee (Per Unit)	$10,000
Construction Management Fee	$25,500
Bridge Financing?	Yes

Additional Assumptions		Notes
Closing + DD + Other Costs	2.5%	Of PPU
Rehab Hard Costs	$50,000	Per Unit
OHP + Contingency + Other	40.0%	Of Hard Costs
Soft Costs	15.0%	Of Hard Costs
Other Costs (i.e. Relocation)	5.0%	Of Hard Costs
Reserves	$600.00	Per Unit
Bridge Financing Origination Fee	1.25%	Of All Acq Costs
Bridge Financing Interest Rate	4.5%	
Bridge Financing Average Term	18.00	Months
PASS Interest Rate	2.58%	
PASS Debt Service Coverage Ratio	1.10	
PASS Loan Term	40.00	Years

Key Input

Target # of Units to Acquire	100.00

Outputs

TDC Per Unit	$742,878
PASS Funds Per Unit Needed	$392,000
Subsidy Per Unit Needed	$350,878
Annual Budget Needed	**$35,087,800**
PASS Mortgage Funds Needed	**$39,200,000**
PASS Payment @ 1.1 DSCR	$15,846

Program Assumptions

Assumed Acquisition PPU	$550,000
AMI Restriction	80%
Y1 Per Unit Residential Income	$24,785
Y1 Operating Expenses	$6,500
% of Portfolio as Commercial	25%
Commercial Rent $/SF Per Month	$3.00
Assumed Commercial Unit SF	1000.00
Rent Increase %	2.50%
Expense Inflator	3.50%
Residential Vacancy Assumption	10%
Commercial Vacancy Assumption	20%
Average Building Unit Count	10.00
Developer Fee (Acq)	$80,000
Developer Fee (Per Unit)	$10,000
Construction Management Fee	$25,500
Bridge Financing?	Yes

Additional Assumptions		Notes
Closing + DD + Other Costs	2.5%	Of PPU
Rehab Hard Costs	$50,000	Per Unit
OHP + Contingency + Other	40.0%	Of Hard Costs
Soft Costs	15.0%	Of Hard Costs
Other Costs (i.e. Relocation)	5.0%	Of Hard Costs
Reserves	$600.00	Per Unit
Bridge Financing Origination Fee	1.25%	Of All Acq Costs
Bridge Financing Interest Rate	4.5%	
Bridge Financing Average Term	18.00	Months
PASS Interest Rate	2.58%	
PASS Debt Service Coverage Ratio	1.10	
PASS Loan Term	40.00	Years

CASH FLOW	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**	**17**	**18**	**19**	**20**
Year	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Residential Income	1,580,069	1,619,571	1,660,060	1,701,562	1,744,101	1,787,703	1,832,396	1,878,206	1,925,161	1,973,290	2,022,622	2,073,188	2,125,017	2,178,143	2,232,596	2,288,411	2,345,622	2,404,262	2,464,369	2,525,978
Residential Vacancy (10.0%)	(158,007)	(161,957)	(166,006)	(170,156)	(174,410)	(178,770)	(183,240)	(187,821)	(192,516)	(197,329)	(202,262)	(207,319)	(212,502)	(217,814)	(223,260)	(228,841)	(234,562)	(240,426)	(246,437)	(252,598)
Commercial	765,000	784,125	803,728	823,821	844,417	865,527	887,165	909,345	932,078	955,380	979,265	1,003,746	1,028,840	1,054,561	1,080,925	1,107,948	1,135,647	1,164,038	1,193,139	1,222,967
Commercial Vacancy (20.0%)	(153,000)	(156,825)	(160,746)	(164,764)	(168,883)	(173,105)	(177,433)	(181,869)	(186,416)	(191,076)	(195,853)	(200,749)	(205,768)	(210,912)	(216,185)	(221,590)	(227,129)	(232,808)	(238,628)	(244,593)
EGI	2,034,062	2,084,914	2,137,037	2,190,463	2,245,224	2,301,355	2,358,889	2,417,861	2,478,307	2,540,265	2,603,772	2,668,866	2,735,588	2,803,977	2,874,077	2,945,929	3,019,577	3,095,066	3,172,443	3,251,754
Op Expense	552,500	571,838	591,852	612,567	634,006	656,197	679,164	702,934	727,537	753,001	779,356	806,633	834,865	864,086	894,329	925,630	958,027	991,558	1,026,263	1,062,182
Reserves	51,000	51,000	51,000	51,000	51,000	51,000	51,000	51,000	51,000	51,000	51,000	51,000	51,000	51,000	51,000	51,000	51,000	51,000	51,000	51,000
NOI	1,430,562	1,462,076	1,494,185	1,526,896	1,560,218	1,594,158	1,628,725	1,663,927	1,699,770	1,736,264	1,773,416	1,811,233	1,849,722	1,888,892	1,928,748	1,969,299	2,010,550	2,052,508	2,095,180	2,138,572
Available for 1st Mortgage @ DSC	**1,300,511**																			
DSCR	1.10	1.12	1.15	1.17	1.20	1.23	1.25													

Note: Assumes 75%/25% Split of Residential to Commercial Units in Portfolio

					Year	2021

MOHCD AMIs							
	SRO	0BR	1BR	2BR	3BR	4BR	Avg
	15.0%	30.0%	25.0%	17.5%	7.5%	5.0%	100.0%
15%	$263	$350	$400	$450	$500	$540	$388
20%	$350	$466	$533	$600	$666	$719	$516
25%	$437	$583	$666	$750	$833	$899	$646
30%	$525	$700	$799	$899	$999	$1,079	$775
35%	$612	$816	$933	$1,049	$1,165	$1,259	$904
40%	$699	$933	$1,065	$1,199	$1,333	$1,439	$1,033
45%	$787	$1,049	$1,199	$1,349	$1,499	$1,619	$1,162
50%	$875	$1,166	$1,333	$1,499	$1,665	$1,799	$1,291
55%	$962	$1,283	$1,465	$1,649	$1,831	$1,978	$1,420
60%	$1,049	$1,399	$1,599	$1,799	$1,998	$2,158	$1,549
65%	$1,136	$1,515	$1,731	$1,949	$2,165	$2,338	$1,678
70%	$1,224	$1,633	$1,865	$2,099	$2,331	$2,518	$1,808
72%	$1,259	$1,679	$1,918	$2,159	$2,398	$2,589	$1,859
74%	$1,294	$1,725	$1,971	$2,219	$2,464	$2,661	$1,911
75%	$1,312	$1,749	$1,998	$2,249	$2,498	$2,698	$1,937
80%	$1,399	$1,865	$2,131	$2,398	$2,664	$2,878	$2,065
90%	$1,574	$2,099	$2,398	$2,698	$2,998	$3,236	$2,324
100%	$1,748	$2,331	$2,664	$2,998	$3,330	$3,596	$2,582
105%	$1,836	$2,448	$2,798	$3,148	$3,496	$3,776	$2,711
110%	$1,924	$2,565	$2,930	$3,298	$3,663	$3,956	$2,840
120%	$2,098	$2,798	$3,196	$3,598	$3,996	$4,315	$3,098
130%	$2,273	$3,031	$3,463	$3,896	$4,329	$4,675	$3,356
135%	$2,361	$3,148	$3,596	$4,046	$4,495	$4,855	$3,485
140%	$2,448	$3,264	$3,729	$4,196	$4,663	$5,035	$3,614
150%	$2,623	$3,498	$3,996	$4,496	$4,995	$5,395	$3,873
160%	$2,798	$3,730	$4,263	$4,796	$5,328	$5,754	$4,131
175%	$3,060	$4,080	$4,661	$5,246	$5,828	$6,294	$4,518
200%	$3,497	$4,663	$5,328	$5,995	$6,660	$7,193	$5,164