

Financing Affordable Housing in High Cost Areas¹

The challenge: take 229 units of dilapidated public housing built in the 1950s, rife with unemployment, crime, and drug abuse, and turn it into a vibrant mixed-income community.² If that's not hard enough, do it in San Francisco, one of the most expensive housing markets in the country, where a 2-bedroom apartment rents for an average of \$1,539 a month.³

The result: North Beach Place. Opened in late 2004, North Beach Place includes 341 new apartments, all of which are set aside for low- and very low-income families, as well as a separate building with 47 units for low- and very low-income seniors. The development also includes a childcare center, a community center, a computer learning center, landscaped courtyards and playgrounds, a business-incubator space for resident entrepreneurs, and a computer/technology center. North Beach Place has easy access to several bus lines and a cable car line, and has structured parking for residents and retailers. To top it off, the two-city-block development includes approximately 17,000 square feet of commercial space, which houses a Trader Joe's, a coffee shop, and a tour agency.⁴

It would be a mistake to say that revitalizing North Beach Place was easy. The project took seven years to complete, with federal budget cuts, a scandal at the housing authority, and problems with resident relocation all contributing to the project's difficulty.⁵ What is particularly notable about the construction of North Beach Place, however, is the multiple layers of both public and private financing.

Critical to the project's success was the allocation of Low Income Housing Tax Credits. Related Capital Company acquired \$38.5 million in 9 percent federal tax credits and \$17.1 million in California state tax credits, raising \$48 million in net proceeds for the project. The major investors in the tax credits included Bank of America, which contributed \$25 million in equity, and HSBC, which contributed \$23 million. The money raised through the tax credit was then used to buy down Citibank's \$54.9 million construction loan to approximately \$24 million in permanent financing, reducing the long-term costs of the project and allowing the units to be leased at below market rates.

The co-developers—BRIDGE Housing Corporation, The John Stewart Company and Em Johnson Interest—secured \$23.2 million in HUD HOPE VI funding. To raise additional public funds, developers turned to the City of San Francisco's Mayor's Office of Housing, which provided \$10 million in the form of a 55-year loan, with a 3 percent interest rate. Another significant factor in making the project financially feasible was that the upfront land acquisition costs typically associated with new developments were avoided. The site is owned by the San Francisco Housing Authority and has been leased to North Beach Housing Associates for 75 years. Initially, the project developers faced difficulties in trying to secure a loan subject to a ground lease to a housing authority, and appreciated Citibank's willingness to commit to funding the project early on.⁶ BRIDGE also won a competitive grant of \$1 million through the Federal Home Loan Bank's Affordable Housing Program.

The project's financing illustrates the importance of public/private partnerships for making affordable housing in high cost areas feasible. Financial institutions play a critical role in financing these mixed-income community development projects. While deals like North Beach Place are far from easy to assemble, they are often highlighted as exhibiting an exceptional amount of innovativeness and complexity during CRA examinations, and more importantly, translate into real benefits for neighborhoods.

The before-and-after of the interior courtyard of North Beach Place.

Photo Credit: Robert Canfield



Endnotes

Affordable Housing in High Cost Areas

- 1 Nothhaft, F., A. C. Cutts, et al. (2005). "Driving Home the Point." *Economic & Housing Outlook*, July 7, 2005. July 13, 2005, from http://www.freddiemac.com/news/finance/outlooks/outlook_070705.html.
- 2 Leonhardt, D. (2005). Boom in Jobs, Not Just Houses, As Real Estate Drives Economy. *New York Times*, July 9, 2005, New York, NY.
- 3 Joint Center for Housing Studies (2005). *The State of the Nation's Housing 2005*. Cambridge, MA, Joint Center for Housing Studies, Harvard University.
- 4 Foust, D. (2005). The Mortgage Trap. *Business Week*, June 27, 2005.
- 5 See *Community Investments*, Volume 17, Number 1, January 2005, for a review of the community development needs of the Federal Reserve's 12th District.
- 6 Critical housing needs is defined as spending more than 50 percent of one's wages for housing—both rental or ownership—or living in substandard conditions.
- 7 Krainer, J. and C. Wei (2004). "House Prices and Fundamental Value." *FRBSF Economic Letter* 2004-27: 1-4.
- 8 Office of Federal Housing Enterprise Oversight, *House Price Index*, available at <http://www.ofheo.gov/HPI.asp>.
- 9 Barbara Lipman (2005). *Paycheck to Paycheck: Wages and the Cost of Housing in America*. Center for Housing Policy, Washington, D.C.
- 10 Federal Deposit Insurance Corporation (2005). U.S. Home Prices: Does Bust Always Follow Boom? *FYI Revisited: An Update on Emerging Issues in Banking*, May 2, 2005.
- 11 Office of Federal Housing Enterprise Oversight, *House Price Index*, available at <http://www.ofheo.gov/HPI.asp>.
- 12 Joint Center for Housing Studies (2005). *The State of the Nation's Housing 2005*.
- 13 Federal Deposit Insurance Corporation, *2005 State Profiles*, accessible at <http://www.fdic.gov/bank/analytical/stateprofile/index.html>.
- 14 McDonough, S. (2005). Spiraling Housing Costs Hurting Americans. *San Francisco Chronicle*, April 29, 2005. San Francisco, CA.
- 15 Joint Center for Housing Studies (2005). *The State of the Nation's Housing 2005*.
- 16 For an introduction to the LIHTC, see the article in the March 2002 issue of *Community Investments*.
- 17 Joint Center for Housing Studies (2005). *The State of the Nation's Housing 2005*.
- 18 For information on the National Housing Trust Fund Campaign, visit <http://www.nhtf.org/>.

Adjusting Limits to Account for High Costs Areas (Box 1.1)

- 1 For a detailed explanation of the procedure, see United States Department of Housing and Urban Development (2004). "Statutorily Mandated Designation of Difficult Development Areas for Section 42 of the Internal Revenue Code of 1986; Notice." *Federal Register* 69(229).
- 2 The original legislation set a higher limit for mortgages on residences in Alaska, Hawaii, and Guam, all thought at the time to have higher than normal costs of building and lower than normal access to credit because of their remoteness. In those areas, the conforming loan limit was set at 150 percent of the limit that applied to the rest of the nation.
- 3 Miles, B. and M. Jickling (2005). Proposed Changes to the Conforming Loan Limit. *CRS Report for Congress*. Washington, D.C., Library of Congress Congressional Research Service.

North Beach Place (Box 1.2)

- 1 Adapted from Keat Foon (2004). "Golden Gate Bridging: Super-Sized Affordable Project In San Fran Layers on the Financing," *Multi-Housing News*, December 1, 2004; "Citibank and BRIDGE Housing Celebrate Creation of 341 Affordable and Senior Citizen Housing Units at North Beach Place," Citibank Press Release, June 17, 2003; and personal communication, John Stewart of the John Stewart Company.
- 2 Ilene Lelchuk (2005). "They Don't Call the Project Outta Control Anymore: Success of Renewal Using HOPE VI is Evident All Around," *The San Francisco Chronicle*, March 28, 2005.
- 3 U.S. Department of Housing and Urban Development, Fair Market Rents Schedule B, Fiscal Year 2006, available at: <http://www.huduser.org/datasets/fmr.html>.
- 4 San Francisco (2004). "One of California's Largest Affordable Housing Communities, North Beach Place, Opens to Residents Today in San Francisco," *Business Wire*, October 22, 2004.
- 5 Ryan Tate (2005). "Winner: North Beach Place, San Francisco, Real Estate Deals of the Year," *San Francisco Business Times*, March 25, 2005.
- 6 Therese Fitzgerald (2004). "San Fran Public Housing Project Completes \$106 million Makeover," *Commercial Property News*, November 16, 2004.