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San Diego Housing Commission (SDHC) Affordable Housing Preservation Fund Land Use and Housing Committee September 4, 2025

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SDHC – Affordable Housing Preservation Fund Introduction

- SDHC’s study, “Preserving Affordable Housing in the City of San Diego,” released in May 2020, estimated that:
 - o Thousands of individuals and families are at risk of no longer being able to afford their rental homes in the City of San Diego.
 - o 35% of all new production will simply replace units that lost their affordability if there is no intervention to preserve existing affordable housing.



SDHC – Affordable Housing Preservation Fund Introduction (Continued)

- **February 3, 2025:** City Council approved a Deed-Restricted Affordable Housing Preservation Ordinance.
- **April 10, 2025:** At the request of Council President Pro Tem Kent Lee, Chair of the Land Use & Housing Committee, SDHC staff presented to the Committee an informational report on the potential to create an Affordable Housing Preservation Fund and options for implementation.



San Diego City Council – February 3, 2025



SDHC – Affordable Housing Preservation Draft Ordinance

Introduction (Continued)

- **The LU&H Committee requested that staff:**
 - Explore the necessary steps to start an affordable housing preservation fund, subject to approvals from the SDHC Board of Commissioners, the Housing Authority and/or the City Council, as needed.
 - Identify what other funds may be available to be leveraged for a proposed affordable housing preservation fund.
 - Determine if there are other financing options, in addition to an affordable housing preservation fund, that would result in the preservation of affordable housing.
 - Return with an analysis of and recommendations for preservation fund models going forward.
- Staff is returning to the Land Use & Housing Committee with a range of preservation strategies that support timely action, long-term affordability and adaptable implementation.



SDHC – Affordable Housing Preservation Fund

Creating a Fund

- SDHC hired a consultant, CSG Advisors, to analyze strategies that:
 - Emphasize mixed-income acquisitions
 - Avoid delays related to Low-Income Housing Tax Credits (LIHTC)
 - Utilize public ownership through SDHC, its nonprofit affiliate, Housing Development Partners (HDP), or an entity created or sponsored by either SDHC or HDP.
- SDHC is presenting a framework that outlines potential implementation options for the Committee to consider.



SDHC – Affordable Housing Preservation Fund

Creating a Fund (Continued)

Framework for Implementation

1. Use of 501(c)(3) Bond or Governmental Purpose Bond Financing with Neighborhood Enhancement Fee Fund (NEF)

- HDP, as a 501(c)(3), can utilize these bonds for HDP ownership.
- Governmental purpose bonds would be used for SDHC ownership.
- Bonds would be paired with the Neighborhood Enhancement Fee fund (NEF) to:
 - Finance the acquisition of naturally occurring affordable housing (NOAH) properties
 - Close the funding gap between what tax-exempt bonds can support and the total acquisition cost of potential preservation projects



SDHC – Affordable Housing Preservation Fund

Creating a Fund (Continued)

Framework for Implementation

2. Ownership and Oversight through Housing Development Partners (HDP)

- HDP or an entity HDP creates or sponsors would acquire NOAH properties at risk of conversion to market rate and own them.
- HDP's status as a 501(c)(3) organization allows it to benefit from tax-exempt bond financing, creating a cost-effective pathway to preserve affordability through direct acquisition.
- This structure preserves public stewardship while leveraging HDP's operational capacity.
 - HDP's Board of Directors includes a City Councilmember/Housing Authority member.



HDP collaborated with SDHC to acquire, rehabilitate and preserve the affordability of San Diego Square.



SDHC – Affordable Housing Preservation Fund

Creating a Fund (Continued)

Framework for Implementation

3. Ownership and Oversight through SDHC

- SDHC or an entity SDHC creates or sponsors could also purchase, own and operate the preservation units.
- SDHC's status as a public agency would be beneficial, such as purchases from another governmental entity or where tenants need resources or programs that presently exist at SDHC, such as homelessness prevention.
- This flexibility helps cover a wide range of potential property purchases.



SDHC acquired and rehabilitated Hillcrest Inn, a single-room occupancy property, to provide deed-restricted units for low-, moderate- and middle-income residents.



SDHC – Affordable Housing Preservation Fund

Creating a Fund (Continued)

Framework for Implementation

4. Targeting High-Opportunity NOAH Properties

- Initial acquisition efforts would focus on stable, revenue-generating, multifamily properties in high-opportunity areas
 - Near transit, schools, and employment centers
 - Do not yet require major rehabilitation
- By acquiring well-maintained properties in strong locations, SDHC and HDP can act quickly to:
 - Preserve affordability
 - Generate income to reinvest in future acquisitions
 - Build a track record of success.



SDHC – Affordable Housing Preservation Fund

Creating a Fund (Continued)

Framework for Implementation

5. Leveraging Additional Capital from Strategic Partners

- The model is designed to deliver measurable outcomes in the near term:
 - Preserve affordability
 - Generate rental income
 - Build confidence in an innovative preservation strategy
- As the program establishes a successful track record, it can position SDHC to explore partnerships and ultimately expand the scope and sustainability of future preservation efforts.
 - Philanthropic foundations
 - Community Reinvestment Act–motivated financial institutions
 - Major employers
 - Health care systems



SDHC – Affordable Housing Preservation Fund

Creating a Fund (Continued)

Framework for Implementation

6. Identifying and Combining Restricted Fund Balances to use in the Preservation Fund

- SDHC and the City have identified funding sources that are required to be spent in defined regions of the City.
- Each fund, by itself, is insufficient to fully fund the construction of new affordable units.
- SDHC will work with the City to further explore the potential to reallocate these funds, if legally permissible, to the affordable housing preservation fund.



SDHC – Affordable Housing Preservation Fund

Creating a Fund (Continued)

Framework for Implementation

7. Maintaining Flexibility for Expansion of Preservation Activities to Fulfill City Council-Approved Preservation Strategy

- Initial phase of fund implementation will focus on acquisition and development through HDP, SDHC or another entity created or sponsored by SDHC or HDP.
- A more direct financing structure will establish the preservation fund quickly and provide more immediate results without the use of competitive affordable housing financing resources.
- This successful track record makes it easier to attract additional investment.
- A future phase of the preservation fund could be used to finance acquisitions and predevelopment expenses allowing the fund to be repaid sooner, upon permanent financing for the project.
- The funds will then be available for new projects, allowing the preservation fund to become a revolving loan fund sooner.
- As the fund balance grows, new programs can be established, such as the Small Sites Rehabilitation program for NOAH, which is Action Item No. 3 of the City's preservation strategy.
- Fund activities could be further expanded through partnership with a selected Community Development Financial Institution (CDFI).



SDHC – Affordable Housing Preservation Fund

Staff Recommendations

That the Land Use & Housing Committee recommend that the City Council take the following actions:

- 1) Direct SDHC to establish an affordable housing preservation fund to enable SDHC, its nonprofit affiliate, HDP, or other entity created or sponsored by SDHC or HDP to acquire and preserve both deed-restricted and NOAH properties to serve and be affordable to households with a mix of incomes from 30 percent of San Diego's area median income (AMI) to 150 percent of AMI and to place affordable housing covenants on the properties to maintain their affordability in perpetuity.
- 2) Direct SDHC staff to work with City of San Diego (City) staff to transfer approximately \$5,000,000 from the Neighborhood Enhancement Fee fund from the City to SDHC into the affordable housing preservation fund, as identified in the City Council's approval of the City's Fiscal Year 2026 Budget, as specified in City Council Resolution R-316263.
- 3) Direct SDHC staff to pursue additional funding resources, in parallel with the use of the Neighborhood Enhancement Fee fund, to acquire properties, including foundations and philanthropic organizations interested in affordable housing; pension funds, commercial banks and Community Reinvestment Act (CRA) motivated financial institutions; tax-exempt/non-taxable bond proceeds, including 501(c)(3) and governmental purpose bonds and other innovative financing tools that can be used to supplement the affordable housing preservation fund.



SDHC – Affordable Housing Preservation Fund Staff Recommendations

- 4) Direct SDHC staff to explore the possibility of combining and using several currently restricted fund account balances, if legally permissible, held by SDHC and the City, such as repayments of loans made by the former Southeastern Economic Development Corporation or by the former Centre City Development Corporation, to be recommended for deposit into the affordable housing preservation fund account.
- 5) Authorize SDHC's President and Chief Executive Officer (President and CEO), or designee, to execute any and all documents necessary to establish an affordable housing preservation fund in a form approved by the General Counsel, and to take such actions as are necessary, convenient, and/or appropriate to implement the fund consistent with the City Council's direction and upon advice of the General Counsel.



Questions & Comments

