

2023 PROPERTY OPERATING BUDGETS

Housing Development Partners (HDP) and HDP Mason
Board Meeting
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2023 Property Operating Budgets

Introduction

- Healthy revenue projected in 2023
 - Offset higher costs and uncollectible rent due in part to the COVID pandemic
- A change in rents for units with Project-Based Housing Vouchers (PBVs) does not impact the tenant's portion of the rent, which is still based on the household's income.

2023 Property Operating Budgets

Economic Impacts

- Annual inflation rate for the 12 months ending October 2022: 7.7%
(Source: U.S. Labor Department)
- 2022: City of San Diego increased wastewater rates 5% on top of a 3% pass-through charge from the San Diego County Water Authority to pay for increased imported water costs.
- Average residential electric bill increased 11.4% in 2022
- Anticipated increases in costs for contracted trade services, such as landscapers, painters and plumbers
- Competitive job market: longer duration to fill vacant job openings

2023 Property Operating Budgets

Total Operating Expenses

- Total Operating Expenses budget:
 - HDP Portfolio: \$8,627 per unit per year
 - Mason Hotel: \$8,477 per unit per year
- PUPY figures are in line with comparable PUPY for similar properties as provided by other management firms and the San Diego Housing Commission's (SDHC) Rental Housing Finance unit.

2023 Property Operating Budgets

Total Operating Expenses (Continued)

- One third of the HDP portfolio provides permanent affordable rental housing with supportive services for people who experienced homelessness (Permanent Supportive Housing).
 - Unique operating challenges, i.e., higher vector control, security, unit repair and turnover expense
- Mason Hotel is a PSH property.



Quality Inn
91 Permanent Supportive Housing units

2023 Property Operating Budgets

Expense Increases

- 2023 operating budgets: 16% increase in property insurance seen during the last policy renewal in August of this year
 - In line with SDHC's rate increase for its real estate portfolio
- The HDP portfolio benefited from economies of scale by having all properties under one umbrella policy.
- However, increases are happening industry-wide.

2023 Property Operating Budgets

Expense Increases (Continued)

- 2023 budget allowance for each property for anticipated uncollected rent of some households
- Higher legal expenses are also projected because of anticipated Unlawful Detainer actions.
- Mason Hotel: Additional maintenance items, such as plumbing and boiler repairs, are also foreseen in 2023.

2023 Property Operating Budgets

Net Operating Income

- Anticipated to perform better than underwriting parameters based on an audit of each property's pro forma.
- Expenses are expected to exceed pro forma targets at four properties: Quality Inn, San Diego Square, Town and Country, and West Park.
 - Ongoing focus and efforts to identify cost-mitigating opportunities throughout the entire portfolio
- Take advantage of available programs to reduce expenses, including but not limited to utility saving programs, solar installation, etc.



New Palace Hotel
79 affordable apartments for seniors
at risk of or who experienced
homelessness
Photo: Griffin Photography

2023 Property Operating Budgets

Town and Country

- Extensive review and plan due to major leak events that have caused financial challenges
 - Six unrelated water leaks in the last 12 months (some costs are below the \$50,000 insurance deductible, which requires the property to cover the full expense of the loss).
- Sewer line investigation did not reveal any cause.
- Additional due diligence for the potential remediation of the plumbing systems is underway.
- In addition, a large number of residents have not paid their rent, participated in assistance programs, or engaged with the Property Management to establish a payment plan.

2023 Property Operating Budgets

HDP Property Budgets Combined

	FY22 Budget	FY23 Budget	PUPA FY23
Rental Income	16,578,604	19,341,465	17,992
Other Income	1,190,637	1,230,330	1,144
Total Revenue	17,769,241	20,571,795	19,137
Total Admin	2,313,206	2,589,277	2,409
Total Utilities	1,335,160	1,483,898	1,380
Total R&M	2,285,580	2,558,775	2,380
Taxes & Insurance	520,188	600,581	559
Other (Extraordinary Items)	1,361,430	1,727,350	1,607
Other (Bad Debt)	0	314,612	293
Total Expenses	7,815,565	9,274,493	8,627
Net Operating Income	9,953,676	11,297,302	10,509
Debt Service	4,772,217	4,680,777	4,354
Net Cash Flow	5,181,459	6,616,526	6,155

2023 Property Operating Budgets

Mason Hotel Property Budget

	FY22 Budget	FY23 Budget	PUPA FY23
Rental Income	246,339	313,847	18,462
Other Income	32,350	32,606	1,918
Total Revenue	278,689	346,453	20,380
Total Admin	83,857	85,981	5,058
Total Utilities	29,560	32,626	1,919
Total R&M	44,694	49,112	2,889
Taxes & Insurance	14,067	14,737	867
Other (extraordinary items)	8,840	8,860	521
Other (Bad debt)	0	6,070	357
Total Expenses	181,018	197,386	11,611
Net Operating Income	97,671	149,067	8,769
Debt Service	4,959	4,959	292
Net Cash Flow	92,712	144,108	8,477

2023 Property Operating Budgets

Monitor Financial Performance

- Continue to closely monitor the monthly financial performance for proper and timely intervention should any negative trends be identified.
- Focus on cost containment, expense approval controls and close oversight of the assets.
- Early in 2023, the Asset Management team will conduct a Request for Proposal for Property Management companies to identify opportunities for additional consistency and better pricing as well as explore the most advantageous fee structure for each asset.

2023 Property Operating Budgets

Staff Recommendations

That the HDP and HDP Mason Board of Directors approve the 2023 Property Budgets as detailed in the staff reports for the following properties:

- Single-Family Homes/Companion Units
- Casa Colina
- Hotel Churchill
- Knox Glen
- Mariner's Village
- New Palace Hotel
- Parker Kier
- Quality Inn
- San Diego Square
- Town and Country
- Village North Senior
- West Park
- Mason Hotel

2023 Property Operating Budgets

Questions/Comments