

Performance Audit of the San Diego Housing Commission's Property Acquisition Process

Why OCA Did This Study

The City of San Diego (City) has struggled to supply sufficient affordable housing options, which has, in part, perpetuated the rise in the population of individuals experiencing homelessness. The City's housing agency, the San Diego Housing Commission (Housing Commission) is responsible for helping create affordable housing for lower-income households and permanent supportive housing for individuals experiencing homelessness throughout the city. Due to City leadership's prioritization of affordable housing and homelessness prevention efforts, and because building acquisitions can be areas of high risk, we conducted a performance audit of the San Diego Housing Commission's property acquisition process with the following objectives:

Determine whether the Housing Commission follows best practices when acquiring properties to increase affordable housing in the City.

Determine whether the Housing Commission has a property acquisition strategy and a funding strategy for property acquisitions based on best practices.

What OCA Found

Finding 1: The Housing Commission largely follows property acquisition best practices, but the agency used an appraisal that potentially overvalued a hotel property by \$6.7 million.

- We found the Housing Commission did not follow the best practice of using an appraisal with a valuation date that corresponded to the appraisal inspection date for its \$67 million acquisition of the Residence Inn Hotel Circle property in November 2020.
- We estimate that the agency might have overpaid by approximately \$6.7 million for this acquisition had the appraisal's valuation accounted for the roughly 10 percent decrease in hotel property values at the time of the appraisal site inspection.
- We found the Housing Commission's staff report to its oversight bodies for the Residence Inn Hotel Circle acquisition did not disclose that the appraisal used a pre-COVID valuation, and the appraisal report was not attached for review.

The Housing Commission Largely Followed Best Practices for All Property Acquisitions, Costing \$158.6 Million for 642 Units, From FY2014 through FY2023, Except for One

The Housing Commission acquired six properties, from FY2014 through FY2023, **creating 642** affordable and permanent supportive housing units

We found that the Housing Commission **followed best practices** when acquiring **five out of six** properties

While acquiring one property, the Housing Commission did not follow best practices, and used an appraisal that may have overvalued the property, potentially causing the Housing Commission to **overpay by roughly \$6.7 million**



Source: OCA generated based on information provided by the Housing Commission.

Finding 2: The Housing Commission should establish a documented acquisition strategy and an annual acquisition goal to improve transparency and to support both the agency and the City's priority of expanding affordable and permanent supportive housing.

The Housing Commission lacks a formal property acquisition strategy and does not commit to an annual acquisition goal.

- Having a formal acquisition strategy and annual goal would help ensure the Housing Commission is communicating to stakeholders how it intends to use its limited resources and track its progress in helping the City reach its goal of creating 2,802 units of permanent supportive housing by 2029.

- Even though the Housing Commission does not have a dedicated funding source for acquisitions, the agency could provide more transparency to stakeholders into how the agency's property acquisitions, which on average cost \$31.7 million per acquisition over the last 10 years, fit into to the agency's overall strategy to increase affordable and permanent supportive housing in the City.

Housing Commission Property Acquisitions Made Up Roughly 35 Percent of All Permanent Supportive Housing the Agency Was Involved in Creating During the FY2020 through FY2023 Period

Method of PSH Creation	Number of PSH Properties Created (FY2020–FY2023)	Number of PSH Units Created (FY2020–FY2023)	Percent of Total PSH Units Created (FY2020–FY2023)
Property Acquisition	4	435	35%
Financing Developers	14	802	65%
Total	18	1,237	100%

Source: OCA generated based on the Housing Commission's FY2022 and FY2023 Annual Reports.

What OCA Recommends

We made four recommendations, and the Housing Commission agreed to three. Recommendations include:

- The Housing Commission should update its policies and procedures to include the following requirements:
 - Appraisal valuation dates must correspond to appraisal site inspections date.
 - Copies of appraisal reports must be included as attachments in Housing Commission staff reports to its oversight bodies.
 - The Housing Commission should follow up with contracted vendors if requested services were not provided in full prior to moving forward with any major property purchase.
- The Housing Commission should complete a vendor performance evaluation for CBRE documenting its performance in providing appraisals for Residence Inn Hotel Circle and Residence In Kearny Mesa.
 - The Housing Commission should update its Strategic Plan to include a property acquisition strategic component.
 - The Housing Commission should establish an annual acquisition goal based on available funding for acquisitions in the upcoming fiscal year.

The Housing Commission did not agree to establishing an annual acquisition goal.

For more information, contact Andy Hanau, City Auditor, at (619) 533-3165 or cityauditor@sandiego.gov.