

Strategies for Successfully Marketing and Stabilizing the Occupancy of Mixed-Income/Mixed-Race Properties

**A Case Study of Spanish Oaks in
Jacksonville, Florida**

October 2005



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This work was funded by a Ford Foundation Grant from their “Flexible Capital” Grant Funding Programs for the Development or Preservation of Mixed-Income/Mixed-Race (MI/MR) Developments and Practical MI/MR Research Assessments. The grant was awarded to NeighborWorks® America who partnered with Abt Associates and Viva Consulting to conduct the study.

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Site at a Glance: Spanish Oaks In Jacksonville Florida



Property	Residents	Neighborhood (Census Tract)
<p>194 units, 1 to 3 bedrooms</p> <p>20% <= 50 % AMI 55% <= 80 % AMI 25% market rate units</p> <p>Built in 1969 as a market rate rental; acquired in 1995 under RTC 's Affordable Housing Disposition Program</p> <p>Co-Owners: Housing Partnership of Jacksonville and Families First</p> <p>Manager: The Clarkson Group</p> <ul style="list-style-type: none"> • 3-story garden style buildings • 78 1BR, 96 2BR, and 20 3BR units • 5.5% vacancy rate 	<p>344 residents (37% are children) 2005 median income: \$46,314</p> <p>0-30% AMI: 38% 31-50% AMI: 22% 51-80% AMI: 24% >80% AMI: 16%</p> <p>86% Black 11% White <1% Hispanic</p> <ul style="list-style-type: none"> • 42% of all units are occupied by families with children • 70% of households have at least one employed adult • 44% of current households use Section 8 vouchers • 6% of units are leased by a non-profit for people with a disability 	<p>4008 residents (census tract)</p> <p>2004 tract median income \$49,046 (86% of area median)</p> <p>14% poverty rate</p> <p>39% Black 55% White <1% Hispanic</p> <ul style="list-style-type: none"> • Located in Arlington, a 1950s neighborhood that became racially integrated before the rest of Jacksonville. • Neighborhood slipped in value as Jacksonville expanded outward, but still has low crime, schools and services typical of the city. • Competition is LIHTC developments close by on major arterial road. • Good bus access to downtown and to major shopping mall < 2 miles farther out.

Keys to Success

- Competitive rents for an attractive property in a neighborhood that is modest but not distressed
- Location convenient to downtown
- Amenities appeals to families with children at all income tiers, particularly the free after school care for grade-school aged kids
- Owners changed manager when maintenance and services started to slip
- Aggressive marketing and willingness to adapt marketing strategies

Section 1: What Type of Mixed-Income Property is this and Why does it Work?

Spanish Oaks is a late 1960s garden apartment development in the Arlington section of Jacksonville, Florida. Originally built as market-rate rental housing, Spanish Oaks entered the inventory of the Resolution Trust Corporation (RTC) after the original owner defaulted. It was sold in 1995 to a partnership of two local non-profits—Jacksonville Housing Partnership and Families First—under the RTC’s Affordable Housing Program. The development has 194 units with between one and three bedrooms. The agreement with the RTC was that 20 percent of the units (40 units) would be reserved for households with incomes at or below 50 percent of area median, another 55 percent (107 units) could have occupants with incomes up to 80 percent of area median, and a quarter (47 units) could be rented to households at any income level at unrestricted, market rents. The actual income levels of the households in 2005 are more heavily weighted towards the low end: half the units are occupied by households with incomes below 50 percent of median including 38 percent that have incomes below 30 percent of median.

a. What Mixed Income/Mixed Race Model(s) Does this Property Typify?

1. *Spanish Oaks is a freestanding mixed-income development created through modest public intervention and funding.* RTC sold the property to the non-profit partnership through RTC’s Affordable Housing Program. The regulatory requirements of the sale were that 75 percent of the units were restricted to occupancy by households with incomes below 80 percent of the area median (including 20 percent with incomes below 50 percent of median). The sales price was determined by the property’s estimated rental income and immediate rehabilitation needs. While we do not know if the property would have sold for a higher price if it did not have income-restricted units, our presumption is that the sale price had a discount that made possible rents affordable for lower income renters. In addition, when the property was refinanced in 1998, the owners received favorable terms from a lender interested in receiving Community Reinvestment Act credit. Together, the discounted price and favorable financing constitute a modest public intervention to create affordable rental housing.

However, despite the formal income tiers agreed to as part of the acquisition from the RTC, Spanish Oaks is not intentionally designed mixed-income multifamily housing. The regulatory requirements ensure that at least 75 percent of the units are rented to lower-income households (those with incomes below 80 percent of median), but there is no requirement that the 25 percent of units with unrestricted rents be rented to higher income renters. Instead, the property’s broad range of incomes occurred naturally, because the market rents are affordable (and not tied

to income)¹ and the neighborhood and the housing provide a good place to live. The development provides value for the dollar to both lower income and higher income renters. Many of the lowest income renters (those with incomes below 50 percent of area median) can afford the rent because they use Housing Choice Vouchers. However, the property manager does not have to make special outreach efforts for either the lower income or higher income renters. They market the units (without mention of subsidy) to all income tiers and let the Jacksonville Housing Authority know that families with vouchers are welcome. The applicants they draw naturally meet the RTC requirements, while some relatively higher income renters come to the property as well.

2. Spanish Oaks is an example of *mixed-income housing that serves predominately one racial/ethnic community*, in this case African-American. On the other hand, the neighborhood has been racially integrated for a long time, if both homeownership and rental units are considered. As of 2000, the population of the census tract was 55 percent white, non-Hispanic and 39 percent black. The *multifamily rental housing* in the neighborhood, including Spanish Oaks, attracts working class, mainly African-American families who like the access to transportation, jobs, and shopping.
3. *Spanish Oaks is an example of a mixed-income development in which there is a substantial number of families with children in both the lower and higher income tiers.* There is no sharp distinction among the types of families in the three income tiers. Families with children comprise almost the same fraction of households living in market-rate units (40 percent) as the fraction in all units (42 percent). A large playground, a swimming pool, and a free after-school program for grade school-aged children, make Spanish Oaks an attractive choice for working parents of all income tiers. Most of the extremely low-income families using vouchers in Spanish Oaks are working families, as employment is an emphasis of the Jacksonville Housing Authority. Income differences at Spanish Oaks do not appear to create social isolation or conflict within the development. The common interests of working parents of all income levels may contribute to this cohesion

b. Why is Spanish Oaks a Successful Mixed Income Property?

Spanish Oaks is successful because it is operated like market-rate multifamily housing, with careful attention to keeping rents in line with alternative housing available to its residents and potential residents and to providing adequate maintenance and management services.

1. *The Spanish Oaks property has the appearance of market rate housing*, with attractive landscaping (featuring the trees for which the development is named) and a swimming pool. When converted to mixed-income housing, the property

¹ An exception is that households with income below 50 percent of median income do get a small discount in rent of approximately \$20 per month.

- kept its name and market identity as one of the rental housing choices available in a good, although not upscale, location.
2. *By providing free after school care, the owners have created an amenity or marketing niche that is very attractive to working parents.* While the use of the old clubhouse as an after-school child-care center may not be typical of market-rate housing, that choice creates a marketing advantage without making the property look like low income housing. Even though 40 percent of the units have only one bedroom, the owners did not consider it as important to retain an amenity originally intended for a professional singles market as it was to create a market niche for families.
 3. *It has been possible to cover costs at rents low enough to keep the property occupied.* This results from both favorable financing and modest development costs. The property was acquired from the RTC at a low sales price; it obtained financing at favorable rates; and the rehabilitation work done in 1995-1996 was fairly modest (repair of a site drainage problem, new roofs for some buildings, and replacement of kitchen appliances). The operating budget funds a modest replacement reserve, which has been used on an ongoing basis for work such as repairing roofs, repainting buildings and repaving parking lots. Plans for the major capital replacements likely to be needed for these 36-year-old buildings will be made as part of mortgage refinancing in 2008.
 4. *The owners were able to stem a slide in the market for Spanish Oaks associated with a murder that took place on the property in 2002 by bringing in new management more sensitive to keeping current residents happy and by marketing the property aggressively.* The murder was an isolated incident that could have occurred in any neighborhood. A resident admitted to her apartment a man who turned out to be a serial killer. The crime received major newspaper coverage and created an image problem for attracting new residents to Spanish Oaks. Furthermore, the management company took no special actions to reassure current residents. In the meanwhile, maintenance was beginning to slip. The result was rising vacancies at the property. The owners turned the situation around by hiring a new management company, temporarily increasing the maintenance staff, and marketing the property aggressively. When management and maintenance improved, current residents began once again to recommend the property to friends.
 5. *Effective marketing techniques have included “human directional signage.”* Teenagers (mainly girls) walk around the nearby shopping mall wearing sandwich boards that advertise rent concessions available at Spanish Oaks—e.g., “move in for \$299” (\$200 security deposit and \$99 first month’s rent). Other successful marketing approaches that helped the property go from 80 to 90 percent occupancy in a few months include fliers to local businesses and employers (including the U.S. Navy), and a \$50 incentive paid to existing tenants who attract

a successful move-in (not simply a referral). The management company keeps track of which approaches are successful and does not hesitate to change them.

c. What Hypotheses about Successful Mixed Income Housing Does This Property Support?

1. *Mixed-income housing cannot be successful unless the fundamentals of real estate development are followed.* The property is located in a modest, but relatively desirable location, the relatively low debt burden allows the owner to charge affordable rents, and the property is well managed. The occupancy problems following the murder provide a lesson for managing housing that is part of the regular housing market for families who have other choices of rental housing that they can afford. In retrospect, the owner and manager should have responded to the murder and corresponding bad publicity aggressively—for example, with community meetings attended by the police to discuss what the murder did and did not mean for safety at Spanish Oaks and with stepped up attention to management and maintenance so residents would be particularly satisfied with the property during that period. The latter step was taken, but only later and after a new management company was hired. Meeting the future capital needs of the aging property is a concern that needs to be addressed early. The owners are meeting in August 2005 to discuss the mortgage refinancing that will be needed in 2008. Presumably, those plans will include recapitalizing the property.
2. *Mixed-income housing in strong real estate markets allows for a wider mix of incomes than in weaker market areas.* The market-rate tier at Spanish Oaks includes a few families with incomes substantially above median, but the typical household in the unrestricted tier has two earners with a *combined* income in the \$40,000 to \$70,000 range. Jacksonville does not have a strong enough housing market, nor is Arlington an attractive enough location, for Spanish Oaks to attract many young professionals or other households with incomes above the median. The property is also not close to a college or university that would supply a population of students occupying rental housing with roommates. The property has begun to attract Naval personnel, who typically have incomes in the 51 to 80 percent of median income range.
3. *Mixed-income housing can have families with children across income groups if the income groups are continuous and there are appropriate amenities for families.* The market rate tier at Spanish Oaks includes 19 families with children. This is more than half of the units with unrestricted rents that are not rented by Volunteers of America for disabled people. Families in all income tiers take advantage of the after-school program when they have children of grade school age. This is one of the biggest draws to families of all income levels.

Section 1: History of the Property

Spanish Oaks is a garden-style rental property in the Arlington section of Jacksonville, Florida. Built in 1969, it is a physically attractive property, with winding roads, shade trees, and a clubhouse and swimming pool at the focal point of the site. It appears to have been managed successfully as market-rate rental housing until the early 1990s, when it entered the inventory of the Resolution Trust Corporation (RTC). The reasons for the property's financial problems may have included a gradual decline in value of the Arlington neighborhood, as Jacksonville and Duval County expanded outward. The site also had a drainage problem, which over time created mold in ground floor units. The property was less than 20 percent occupied at the time the RTC sold it.

A partnership consisting of two Jacksonville non-profits, Housing Partnership of Jacksonville and VCP Housing Foundation (now called Families First), competed in 1995 for the right to acquire Spanish Oaks from the RTC. The proposal included a commitment to manage 75 percent of the units at Spanish Oaks as affordable housing: 20 percent reserved for households with incomes up to 50 percent of area median income, and another 20 percent for households with incomes up to 50 percent of area median income.

These income tiers were created both in order to make the application to the RTC competitive and because the Housing Partnership's mission is to provide affordable housing. The income tiers are not marketed separately, and, as of 2005, there is no distinction between rents for the unrestricted, market-rate tier and rents charged to households with incomes between 51 and 80 percent of median. This is the rent that is advertised in marketing materials. When a potential renter inquires about an apartment at Spanish Oaks, the household's income is reviewed. If the applicant qualifies as very low income (below 50 percent of area median income), (s)he then is told that her rent will be lower than the advertised rent. However, most households with very low incomes come to Spanish Oaks with vouchers from the Jacksonville Housing Authority, and the full rent charged is an amount negotiated with JHA (usually just slightly lower than the advertised rent).

The management company keeps track of the income levels of the occupants of all units at Spanish Oaks and sends compliance reports to the Florida Housing Finance Agency, the entity that was given the responsibility for monitoring the commitments to the RTC.

As of 2005, 80 of the 180 occupied units at Spanish Oaks have residents who are using vouchers. Another 11 units are leased by the non-profit Volunteers of America (VOA) to provide housing for people with disabilities and two are provided to clients of Lutheran Services. At the time the property was acquired, the owners committed to making "reasonable efforts to rent twenty-five percent of the apartment units in Spanish Oaks to tenants referred by certain pre-approved social service agencies."

Exhibit 1 shows the number of units in each of the income tiers at Spanish Oaks, as well as the number of units occupied by families with vouchers or leased by VOA as of March 2005.

Exhibit 1: Income Tiers by Bedroom Size for Spanish Oaks

Unit Composition	Below 50% median	51-80% median	Unrestricted	Total	Units with Voucher Holders (3/2005)	VOA Units
1BR	16	43	19	78	35	11
2BR	20	53	23	96	42	0
3BR	4	11	5	20	3	0
Total	40	107	47	194	80	11

Development History

The sales price established by the RTC for Spanish Oaks, \$2,069,740, or less than \$11,000 per unit, was based on the rehabilitation considered to be needed by the property and the expected rental income. The new owners spent about \$8500 per unit on renovation, mainly on unit renovations such as new kitchen appliances, but also including further work on the site drainage problem that an interim owner had started to address. Short-term financing for the acquisition and rehabilitation was provided through loans from a group of local financial institutions and the Duval County Housing Finance Authority. The property was refinanced in 1998 when the short-term notes became due and was able to take advantage of a drop in interest rates and favorable terms negotiated with a lender motivated by the Community Reinvestment Act. This made it possible to do some additional rehabilitation and to add to the reserves.²

Ownership and Management Team

The joint venture that bought Spanish Oaks from the RTC included VCP Housing Foundation, a non-profit established by Vestcor Properties, Inc., a local real estate investment and management company. VCP Housing Foundation brought housing development, financing, and management expertise to the partnership and handled the refinancing in 1998. The Housing Partnership had strong community ties in Jacksonville and provided community services at the development. Vestcor managed the property for the partnership from 1995 until early 2003. As the board of directors of both non-profits had evolved and the President of VCP changed, the original ties to Vestcor became attenuated. Hence, when there were vacancy problems in 2002 and early 2003, the owners turned over management to the Clarkson Group. Meanwhile, VCP Housing Corporation became First Coast Family and Housing Foundation and later changed its name to Families First.

² The pro forma for the 1998 refinancing is not available. This information is based on interviews with the owners and notes to the property’s audited annual financial statements.

The Housing Partnership of Jacksonville and Families First own two properties together and in 2004 decided to establish clear responsibility for asset management at each property. Families First is the managing partner for Spanish Oaks.

The Clarkson Group manages subsidized and unsubsidized apartments in the Southeast, mainly Florida and Texas. Its four multifamily properties in Jacksonville include Kings Ridge, the other development jointly owned by the Housing Partnership and Families First. The current site manager previously managed a Low Income Housing Tax Credit property in Jacksonville and subsidized housing in New York City.

Section 3: Property, Residents, and Neighborhood

Basic Property Information

The apartments at Spanish Oaks include 78 with one bedroom, 54 with two bedrooms and one bath, and 42 with two bedrooms and two baths. There are 20 three-bedroom units. The apartments are spacious. For example, the two-bedroom units have 1100 or 1125 square feet. Many units also have small balconies. The fifteen residential buildings vary in size and shape, and the site has an attractive design with winding streets and mature trees. The swimming pool and community room form a focal point for the development. There is ample on-site parking. While finishes and landscaping are not elegant, the complex has the curb appeal of well-maintained, market-rate rental housing.

Resident Characteristics

Spanish Oaks serves a population with a broad range of incomes. Household income ranges from close to zero to \$92,000. At the lower end of the income spectrum, 38 percent of households have incomes below 30 percent of the household-size adjusted area median and another 22 percent have incomes below 50 percent of the median. (See Exhibit 2.) These very low and extremely low-income households, with few exceptions, use Housing Choice Vouchers to help pay the rent. On the upper end of the income spectrum, 16 percent of the households have income above 80 percent of area median (including 12 households with income above the median) and another 24 percent are between 51 and 80 percent of the median. Most households (70 percent) have a working adult, and households who have incomes greater than 80 percent of area median income are likely to have two workers.

There is little racial and ethnic diversity at Spanish Oaks. The population is overwhelmingly African-American (86) percent. Almost all the rest are white, non-Hispanic (a few of whom identify themselves as Middle Eastern).

As of March 2005, there were 126 children under the age of 18 at Spanish Oaks. Forty-two percent of all households have children, and children are not concentrated in one

income group. Forty percent of households in the market rate tier have children, as do many households with extremely low incomes.

There seems to be little distinction in behavior, culture, or expectations among the income groups. Basically, this is a working class, African-American community. Many residents already lived in the neighborhood before moving to Spanish Oaks.

Exhibit 2: Resident Characteristics for Spanish Oaks, 2005

Resident Characteristics	Numbers	Percentage
Households		
• <30 percent median	68	38%
• 31-50 percent median	40	22%
• 51-80 percent median	44	24%
• >80 percent median	28	16%
Note: compared to household-size adjusted median income.		
Population		
• Black	296	86%
• White (non-Hispanic)	37	11%
• Hispanic	5	<1%
• Asian	1	<1%
• Families with children	77	42%
• Households with a working adult	126	70%
• Households with two or more working adults	18	10%
• Median income of households in property	\$46,314	
• 2000 Census Tract Median Income	\$49,046	

Neighborhood Characteristics

The Arlington neighborhood was developed in the 1950s, and it was the first part of Jacksonville to become racially integrated. The traditional African-American neighborhood is on the North side of Jacksonville, while Arlington is on the East side. The Jacksonville Housing Authority (JHA) may be encouraging black voucher users to look for housing in Arlington in order to reduce the density of families with housing assistance on the North side of the city.

The surrounding neighborhood has a higher share of whites and lower share of African-Americans than Spanish Oaks. The census tract in which Spanish Oaks is located has a majority white, non-Hispanic population (55 percent). Thirty-nine percent of the population of the census tract identifies itself as African-American (compared to 86 percent in Spanish Oaks).

The census tract extends back into the single-family neighborhood north of Arlington Expressway and behind Spanish Oaks. Spanish Oaks residents make up about 9 percent of the census tract. There are other rental apartment complexes in the tract, but the overall homeownership rate is 60 percent. Median income for the tract is just over \$49,000, and the tract has a relatively low poverty rate, 14 percent.

Table 3: Summary Neighborhood (Census Tract) Information for Spanish Oaks

<i>Characteristic</i>	Number
<i>Neighborhood Population</i>	
Number of Residents	4008
<i>Neighborhood Income Levels</i>	
2004 HUD Estimated MSA Median Family Income	\$56,800
2004 Est. Tract Median Family Income	\$49,046
Tract Median Family Income %	86%
% Below Poverty Line	14%
<i>Race/Ethnicity</i>	
% Black	39%
% White (non-Hispanic)	55%
% Hispanic	3%
% Asian and other race	3%
<i>Neighborhood Housing</i>	
Total Housing Units	1,614
Median Age of Housing Stock	35 years (1960s)
% owner occupied	60%
% renter occupied	34%
% vacant	6%

Spanish Oaks is not a gated community, but has a fenced perimeter and a single road leading into the property from Arlington Expressway. Thus, it is not connected physically to the neighborhood of modest, one-story single-family houses that stretches back from the highway.

The nearest shopping is at Regency Mall, about 1.5 miles farther out Arlington Expressway. Some Spanish Oaks residents are service workers at this large shopping and entertainment complex. Thus, even though most of the commercial establishments closer to Spanish Oaks have closed, the property is not isolated. There is good bus service to downtown Jacksonville.

The quality of schools and public services in the neighborhood is described as typical for Duval County and Jacksonville.

Section 4: Maintaining High Occupancy Rates and Profitability

Spanish Oaks Overcomes an Early Occupancy Crisis through Increased Attention to the Fundamentals of Property Management

Rents in 1995 were set at the maximum permitted by the agreement with the RTC for the 20 percent of units reserved for very low-income households (below 50 percent of area median). Rents for households with income between 51 and 80 percent of median were set below the maximum permitted for households at this income tier. However, at about 30 percent of 70 percent of area median income, they were somewhat above the maximum rents permitted by the Low Income Tax Credit (that is, 30 percent of 60 percent of median), and rents for the unrestricted units were just slightly higher. Thus, it appears that when the new owners first placed the property in service, they were aiming for a market slightly above LIHTC developments. At that time, there were no LIHTC developments nearby and in direct competition with Spanish Oaks.

Vestcor assigned a very experienced property manager to get Spanish Oaks through the initial lease-up period, and the property's payroll during the lease up period included about \$30,000 for staff costs associated with leasing. The original marketing plans included a model apartment, but this was taken out of the budget when early leasing demonstrated that it would not be needed. By 1997, the occupancy rate was 97 percent.

However, the initial marketing success for Spanish Oaks was not sustained. By 1999, occupancy had begun to slip, perhaps because of competition as LIHTC developments were placed in service nearby, and also because of a gradual decline in the quality of management after the original site manager was transferred. In 1999-2002, the occupancy rate hovered in the low 90s. Then, after a murder on the property in late 2002, the gradual decline in occupancy turned into a crisis. The occupancy rate dropped to 90 percent early in 2003 and then to 80 percent later that year.

The murder was not an indication of a crime problem in either the property or the neighborhood. Rather, a woman admitted to her apartment a man who turned out to be a serial killer. However, because of some grisly details, the crime received major coverage in the Jacksonville press. This had the natural result that people shopping for a place to live were reluctant to consider Spanish Oaks.

In hindsight, the manager of Spanish Oaks did not respond appropriately to this crisis. There was no community meeting with the police present to explain that this crime was anomalous and to elaborate on the police protection provided for this development and the surrounding neighborhood. There also was no step up in basic management services—such as better response times for maintenance requests, greater availability of management staff, and improved overall appearance of the property—in order to convince the current residents that they would have a hard time matching the deal they were getting at Spanish Oaks.

Ultimately, the owners responded to the occupancy crisis by deciding on a change in the management of the property. This was a difficult decision, since the company providing management services had been part of the development team, had taken the property through the successful 1998 take-out financing, and had done an excellent job during the initial lease-up period.

The new management company responded to the occupancy crisis in several ways. First, the new manager and the owners agreed on temporary increases in the property's operating budget, adding staff in order to increase responsiveness to maintenance calls and to make a visible difference in the appearance of the property. Second, the owners and manager tried marketing approaches more typical of an initial lease-up period. These marketing approaches included:

- First month rent concessions;
- Active marketing to local employers, including the US Navy;
- A \$50 incentive payment to any current resident whose recommendation resulted in a move in; and
- “Human directional signage” both at the entrance to the property and at the nearby shopping mall. Teenagers (mainly girls) walked around the mall wearing sandwich boards with ads such as “move in for \$299” (\$200 security deposit and \$99 first month's rent).

Another part of the recovery strategy was to set rents for the 51-80 percent and unrestricted tiers at levels that were competitive with other apartment complexes located along Arlington Expressway that had been redeveloped and placed in service under the Low Income Tax Credit program in the period between 1995 and 2004. The management company now surveys those developments each month on a rotating basis in order to judge the appropriate rent increases for Spanish Oaks.

The occupancy rate was back in the low 90s by early 2005 and continues to increase each month.

Current rent schedules for Spanish Oaks are shown in Exhibit 4. Because they are set with reference to LIHTC properties, the rents for the low income and unrestricted tiers are well below the maximum levels permitted under the agreement with the Resolution Trust Corporation.

It appears that the use of housing vouchers at Spanish Oaks has increased somewhat over time, and encouraging the use of vouchers may have been another part of the response to declining occupancy rates. The first mention of outreach to the Jacksonville Housing Authority in management reports submitted to the owners occurs in the 2002 annual financial statement. However, voucher holders have comprised between 20 and 40 percent of tenants since 1999 and, according to one of the property's owners, they reached out to voucher holders from the beginning.

Exhibit 4: 2005 Rent Schedules (Including Utility Allowances)

	Very Low Income Tier	Low Income and Market Rate Tiers	Maximum Allowable Rent for Low Income Tier (30% of 80% of median)
1 bedroom	\$539	\$559	\$733
2 bedrooms	\$629	\$649-669	\$824
3 bedrooms	\$742	\$769	\$977

Source: Rent schedules provided by site manager

These rent levels appear to be more than adequate to cover routine operations of the property and generate positive cash flow. The annual debt service requirement for Spanish Oaks is only \$289,692, or \$1493 per unit. Rental income is projected at \$1,209,969 for 2005, or \$6236 per unit.

Capital Needs Will Be Addressed as Part the Mortgage Refinancing in 2008

The crisis in occupancy following the murder appears to have taught the partnership a lesson about the need to asset manage actively, watch monthly budgets, and plan strategically for the property. The 2004 decision to establish that one of the two ownership partners is the managing partner for Spanish Oaks reflects that increased emphasis on asset management.

While Spanish Oaks now has a steadily increasing occupancy rate (93 percent as of early 2005) and positive cash flow, the next issue for the property will be how to address the longer-term capital needs of a property built in the late 1960s. An estimate of capital needs for 2005 includes \$183,000 in roof replacements. The current pace of contributions to the replacement reserve is between \$52,000 and \$53,000 per year, while draws on the reserve have averaged more than \$81,000. As of mid-2005, the balance in the capital reserve was only \$17,254.

The viability of the property over time will depend on the refinancing of the 10-year mortgage that must take place when the balloon payment of somewhat more than \$3 million comes due in 2008. The owners and managers are meeting in late August 2005 to plan for the refinancing. As of the summer of 2005, they are not considering an application for Low Income Housing Tax Credit authority, believing that the competition for Florida's LIHTC allocation is too stiff.

Section 6: Resident and Community Services

The resident and community services program at Spanish Oaks was part of the original budget for the property, and the operating budget during the early years included the salary costs of a social services coordinator (\$40,470 in 1996). As of 2005, the social services budget includes \$54,811 provided by contract and direct expenses of \$18,820.

While there are some adult-focused activities such as referrals to job training programs and social services, the focus of community services at Spanish Oaks is on children. Most of the budget is spent on a free after school program for grade school aged children that uses the space that originally was a clubhouse next to the swimming pool. The owners also obtained control of vacant land adjacent to the property and created a large playground.

The owners and managers of Spanish Oaks consider the free after school program a major marketing advantage for the property and feature it prominently in marketing materials.

Section 7: Financing Sources and Costs

Spanish Oaks has a relatively simple financing structure, compared to many other mixed income or affordable housing developments.

The application to the RTC assumed seller financing at 10.25 percent interest, with a 15-year term and a 30-year amortization schedule. By the time of closing, the joint venture had instead negotiated a bridge loan, due in 1998, with a group of local banks at a lower interest rate, 8.5 percent. A second bridge loan was provided by the Duval County Housing Finance Authority at 2 percent interest (Exhibit 5).

Exhibit 5: Financing Information for Spanish Oaks: 1995

Lender/Investor	Debt/Equity	Rate	Amount	Loan term	Annual requirement (1997)
Several participating local banks	Acquisition and construction note	8.5%	\$2,220,000	Repayable in October 1998	\$214,512
Duval County Housing Finance Authority	Second lien guaranteed by joint venture partners	2%	\$780,000	Repayable in October 1998	Interest only
Total			\$3,000,000		

Given the terms of the 1995 financing, Spanish Oaks had to obtain permanent financing in 1998. This was accomplished at an even more favorable interest rate (7.19 percent), made possible both by a drop in market rates and by the desire of the lender to gain credit under the Community Reinvestment Act. The refinancing produced loan proceeds that were \$545,000 above what was needed to pay off the original notes. This was used for some additional rehabilitation work and for a modest disbursement of cash (\$50,000) to the owners.

Exhibit 6: Refinancing Information for Spanish Oaks: 1998

Lender/Investor	Debt/Equity	Rate	Amount	Loan term	Annual requirement (1999-2008)
First Union National Bank	Permanent loan	7.19%	\$3,545,046	10 years	\$289,692

In addition to these favorable financing terms, another reason that the property has been able to cover costs from modest rental income was a sales price of only \$2,069,740, or \$10,668 per unit. Furthermore, development costs—and therefore, debt service—were kept relatively modest by a decision not to attempt to upgrade the property to enhance its curb appeal or to appeal to market rate renters expecting the finishes and amenities found in new rental developments. The 1995 pro forma identified \$716,770 in rehabilitation costs needed to take care of “immediate physical deficiencies.” Favorable financing terms made possible a somewhat higher rehabilitation budget, but the cost per unit was still modest. The rehabilitation cost a total of \$1,730,517, or \$8920 per unit. Almost all of the work was on unit interiors. Exterior work included painting, roof work, and HVAC replacement. Very important, but not a high cost item, was completion of work on a drainage problem that had caused mold in the interior of first floor units.