



Data as of July 29, 2013

HACSC's mission is to provide and inspire affordable housing solutions to enable low-income people in Santa Clara County to achieve financial stability and self-reliance.

Third-Party Property Management Provides Significant Cost Savings

Situation - Prior to 2010, both the agency and its affiliate corporations¹ incurred annual losses from the real estate portfolio, forcing the deferral of capital improvement projects at agency-owned properties and impacting services to residents.

Solution - Contracting with third-party property management companies transformed the real estate portfolio's financial health from operating in the red to operating in the black. Cost-effective property management has enabled the agency to provide resident services at all properties within HACSC's housing portfolio for the first time in the agency's history.

The Housing Authority of the County of Santa Clara (HACSC) owns or controls more than 2,600 affordable housing units in 27 rental communities throughout the high-cost area of Silicon Valley. For more than 20 years, HACSC directly managed its real estate portfolio. In 2010, HACSC's Board of Commissioners voted to transition the management of its affordable housing portfolio to seasoned third-party property management companies who can achieve efficiencies in their property management model that HACSC was unable to achieve through direct management.

This decision was the culmination of a two-year cost analysis of the agency's existing in-house property management arrangement. The properties were incurring annual losses as a result of high maintenance costs and operating inefficiencies under the self-management model. These issues were impacting the property budgets, affecting services to residents and causing the properties to deteriorate due to the growing backlog of capital improvement needs.

Since completing the transition to third-party property management, HACSC's housing portfolio has become financially healthy. Its greatly increased net cash flow and decreased operating costs result in the ability to re-pay funds borrowed from HACSC, affiliate corporations and partners, including the City of San José and Santa Clara County.

Outsourcing property management has enabled HACSC to:

- Improve resident services, including social services, maintenance response rates and management
- Complete major rehabilitation valued at more than \$100 million at 10 properties, plus complete capital improvements of more than \$5 million at other properties
- Increase the property portfolio's net cash flow by 250% (*a key asset management performance indicator*)
- Increase distributions to HACSC and partners by 256%, from \$892,000 in 2010 to \$3.1 million in 2012 (*distributions include payment of loans and ground leases, cash-flow contingent fees, and reimbursement to HACSC and its affiliate corporations for advances for operating costs during the agency's self-management years*)
- Decrease vacancy loss by more than 50%, from 2.7% in 2010 to 1% in 2012
- Decrease operating costs per unit per year by 11% (*or 15% when adjusted for inflation*), from \$6,579 in 2010 to \$5,861 in 2012
- Allow HACSC staff to focus on strategic oversight, contract management and asset management

¹The affiliate corporations serve with HACSC as owner, managing general partner or co-owner of the properties.

Resident Services Improvements



HACSC ensures that residents living at HACSC-owned or -controlled properties have access to the services they need to maintain housing and to develop economic stability and independence. Outsourcing to third-party property managers enabled the agency to increase spending on resident services by 158%. HACSC contracts with LifeSTEPS, InnVision Shelter Network, Housing Choices Coalition and Peninsula Healthcare Connection to provide supportive services and resident programs at HACSC properties. Results of HACSC’s annual resident surveys have been outstanding, with residents giving high marks on the physical conditions and management quality of their housing experiences.

Operating Cost Efficiencies

The on-site management provided by HACSC’s three property managers – The John Stewart Company, FPI, Inc. and Charities Housing Development Corporation – plus the strong asset management oversight provided by the agency’s Real Estate Services Department significantly lowered operating costs at HACSC properties. Even more impressive is that these savings occurred while positively impacting resident services. Between 2010 and 2012, operating costs related to management fees decreased by 44%. This cost savings can be attributed to the efficiencies that come from having a single on-site property manager carrying out leasing and compliance functions. Similarly, maintenance expenses decreased by 31%.

Total Operating Costs at HACSC Comparable Properties			
	2010	2012	
Leasing Fee	596,693	42,531	-93%
PM Fee	1,013,400	842,145	-17%
Accounting	101,648	74,255	-27%
Total Mgmt Fee	1,711,741	958,931	-44%
Administration	757,148	797,453	5%
Resident Services	180,469	466,173	158%
Personnel/Benefits	1,901,385	1,993,742	5%
Maintenance	3,990,672	2,733,645	-31%
Tax	194,065	305,536	57%
Insurance	622,131	586,759	-6%
Utilities	1,852,394	1,971,601	6%
Other	26,617	197,690	643%
Total	11,236,622	10,011,530	11%

**“Comparable properties” represent 65% of the units in HACSC’s housing portfolio and are limited to those HACSC-controlled properties that were self-managed in 2010 and managed by third parties in 2012.

Lessons Learned

- Outsourcing of property management requires close contact, oversight and cooperation with third-party property managers to ensure operating gains and strong performance on key indicators such as occupancy, collections and cost controls. HACSC has developed an asset management department in the past few years to address this need.
- Dedicating operating funds to an experienced service provider/property manager enables the property to run more smoothly – property management can focus on property issues and the social services staff can assist families in maintaining their economic self-sufficiency and housing.
- Adjusting HACSC’s business model to eliminate property management resulted in a significant reduction in force. While some of the effects can be mitigated through the contractor’s re-employment of some personnel, not all of HACSC’s former property management and maintenance staff were re-employed. Demonstrating the positive change in the lives of these residents is key in affirming that the difficulties wrought by the change were needed to achieve the desired results.



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