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By Carole Lloyd, Special to the Chronicle

Barbara Hernandez was like thousands of other lifelong renters in San Francisco, a native whose modest income made her desire to stay in the city relatively dependent on a rent-controlled apartment. Then, at age 50, she won a homeownership lottery and her prospects seemed utterly changed.

A single mother who had lived in a 1,100-square-foot flat in the Mission District for only \$800, she had always harbored a dream of someday owning her own place. Having worked first as a preschool teacher and then as a graphics administrator at City College, she'd spent decades scrimping and saving for a down payment. When her son moved out, she'd rented out his room to reduce her expenses.

But by the time she was ready to begin house hunting, it was 2001 and the market was roaring, setting price records each month. She soon saw how little \$300,000 -- the purchase price she'd qualified for -- would go. After having umpteen offers rejected and seeing more uninhabitable homes than she could shake a two-by-four at, she began to realize the facts: She was all but priced out.

"Everyone kept telling me, 'You can't afford to buy in San Francisco,' " she told me from her cozy, memento-laden home. "But I'm the kind of person that if people say I can't do it, I'm more determined."

So she began to look for special opportunities for first-time buyers. She found the Mayor's Office of Housing Web site, which lists affordable-housing programs for those who meet the income requirements and qualify for loans.

"I went through the process -- you have to fill out about 4,000 pieces of paper," she said with breezy hyperbole. "And you had to attend a class which talked about homeownership and budgeting. I'd been saving for a long time, and I was already qualified for a loan, so I thought, 'I can do this.' "

When she saw a new listing for a below-market-rate (BMR, in affordable housing argot) one-bedroom condominium at the Landmark Union Square, a converted historic office building at 333 Grant St. at the Chinatown gate, she decided to apply. As with many affordable-housing opportunities around the city, BMR buyers were to

be selected by lottery. At the last minute, Hernandez put in an application for the BMR studio as well.

A few weeks later she learned that she hadn't come close to winning the one-bedroom lottery, but she was in second place for the studio. And when she got the call that the applicant who drew the No. 1 slot didn't qualify for a loan, she was thrilled.

"I couldn't believe it," she recalled. "I was born in San Francisco and I've lived here all my life. I always wanted to die here, too. It just seemed like fate that I should win."

Then there was the enthusiasm from friends and family encouraging her to become a homeowner and thereby solidify her financial future. "Everyone was telling me what an amazing opportunity it was. 'You'll have a place of your own,' they said. 'You can retire. Nobody can evict you.' "

The studio in the luxuriously renovated historic building was valued at \$300,000, but as a BMR unit, its price would be around \$233,000. With her 10 percent down, she easily qualified for the \$800 mortgage and \$355 homeowners association fee.

When she visited the unfinished, 450-square-foot studio with sandblasted brick walls and exposed industrial windows, she felt daunted. "I thought, 'What am I doing? How am I going to fit in here?' " Still, caught up in lotto fever, she embraced her lucky break. Ridding herself of her furniture and selling her truck, she ordered a custom-designed Murphy bed and moved in.

Two years later, her dream of homeownership has turned into a complicated morass of unpaid bills and anxiety.

Last year, she was slapped with a \$4,000 assessment for unforeseen building maintenance. She gave up her treasured Giants season tickets and sent the homeowners association a partial payment with a letter explaining that she didn't have the \$4,000 immediately available. For the next nine months she received notices from the HOA that she was accruing \$300 per month in late fees. Eventually, the HOA dismissed the late fees and put her on a payment plan, but soon another issue arose.

In December, just before undergoing surgery for breast cancer, she learned that the monthly homeowners association fees would jump to \$630 a month to cover various building expenses. "We have never met our budget," she said. "We're always owing money and we don't have reserves built up."

Added to her actual bills was the feeling that she had, as she put it, "landed on another planet" and her cost of housing was only going to keep going up.

"This is luxury housing, and my neighbors want certain amenities," she shrugged. She said some of the other homeowners wanted to boost security from their current 12-hour doorman to a 24-hour doorman. Others were looking for earthquake insurance. In addition, she sometimes felt the culture clash more personally, as when one of the residents complained that her bicycle had left track marks over the designer carpet in the lobby. "But it's the only way to get to the bike room," she told me.

Inclusionary housing has been touted as one of the few benefits accorded to the have-nots to emerge from the decadelong development boom. Inclusionary-housing laws require developers to provide for affordable housing units in one of three ways: by creating BMR units within the development, by building affordable housing off-site or by paying "in lieu" fees.

Even if new housing in San Francisco was increasingly tailored to the very wealthy, inclusionary-housing laws made sure that at least some of the profits developers were reaping would go to the people who could otherwise never have afforded a home in the city.

By all accounts, inclusionary-housing programs have been successful. Since the implementation of these laws, there have been 550 inclusionary-housing units built - offering \$28.8 million in ownership opportunities to low- and moderate-income residents.

(Over the years, the laws have grown increasingly demanding for developers -- once the law required 10 percent affordable units for developments over 10 units; now all developments with more than five units are required to provide 15 percent affordable units, sometimes more. In the Bayview development master plan, a full 25 percent of the units must meet inclusionary-housing standards. Supervisor Chris Daly is sponsoring a bill that would boost the citywide percentage to 25 percent.)

But Hernandez's story underscores just how complicated creating affordable homeownership can be -- not only at the level of building and financing but also in education and culture.

When she learned of her new dues she contacted the Mayor's Office of Housing and asked for help in paying the increased homeowner fees. When told that this was not part of their role, she went in search of lawyers who might take her case. When no one accepted, she began to worry she might lose her home. If she couldn't pay the extra dues, her homeowners association could put a lien against her condo, which could eventually lead to foreclosure.

She contacted the Mayor's Office of Housing to inquire about reselling her unit, but when she learned that the value of her studio had declined, she worried that after real estate agent fees, she might lose her down payment altogether.

Matthew Franklin, director of the Mayor's Office of Housing, assured me that this was not the case, that the agency had a commitment to making sure clients didn't lose their savings upon resale. When I relayed this information to Hernandez, she sounded relieved. "Why would anyone ever buy a house if they could lose their down payment?" When I explained that in a declining market, for an ordinary home buyer -- not one supported by a government program -- it was indeed possible, she seemed surprised.

If Hernandez seems a little naive when it comes to appreciation and depreciation, she's got good company. Like so many of us who came of "real estate-owning" age in the past decade, she'd incorporated the idea that real estate always goes up into her world view. In making her decision to buy her place, she recalled everyone emphasizing that this would all be a great investment because real estate always appreciates.

In a sense, Hernandez is learning what all homeowners eventually learn when things go wrong: It's a hell of a lot more expensive and cumbersome than being a renter. This is why homeownership programs typically require that first-time homeowners attend educational workshops -- it's a leap into a different way of thinking.

"We emphasize with our clients that this is not rental, this is homeownership," Franklin explained. "That's why everyone has to take a housing workshop to learn about budgeting and planning. Housing association dues are expected to rise over

time. I think there's going to be certain amount of challenges for any new homeowner, and I think you can expect the same to be true for anyone in the inclusionary program."

However, Franklin acknowledged that Hernandez's increase from \$355 to \$630 in monthly HOA fees is unusually steep. "I concur that that rate of increase is very unusual," he said, adding that his office would be investigating the reasons for it.

Whatever the specifics of Hernandez's story, it's not surprising that over time problems might arise between inclusionary-housing recipients and their more affluent neighbors. "It's a clash of cultures," said Ed Donaldson, housing counseling director for the San Francisco Housing Development Corp., one of the agencies that provide counseling for inclusionary-housing recipients.

He told me he imagined that the reality of many fixed-income residents sharing buildings with the affluent may prove to create its own set of challenges. "I think it could be a problem in the future. I think there needs to be some advocacy in that regard earlier in process, prior to the development coming out of the ground. It's not right that clients should get stuck like this."

Although there's been a lot of criticism of developers who locate their affordable housing units in less appealing neighborhoods, there's also something to be said for the affordable-housing homeowner who suddenly feels they can't afford the amenities that their neighbors may wish to add.

Tracy Dearman, co-founder of San Francisco Urban Community Housing Corp., a nonprofit organization that also acts as a liaison between developers and BMR clients, agrees that it's a potential problem.

"I've heard from our clients about the problem of (homeowners association fees rising)," she told me. "This isn't a slight on anyone -- but (developers) really go down to the bare minimum about what the homeownership fees need to be. Without a property manager telling them what it's going to cost, they can be very unrealistic."

For Hernandez, the worst -- the fear of losing everything -- may be over. Even though her unit hasn't appreciated, she can sell and salvage her down payment if need be. Now that she's got a home, though, she'd like to keep it. But if the HOA bill continues to rise, she knows it won't be possible.

In the world of luxury condos, Hernandez has learned the hard way: What may start out affordable can soon turn exorbitant. And even for those lucky lotto winners of inclusionary housing, San Francisco still continues to inexorably metamorphose into a playground of pieds-a-terre on a hill.

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<http://sfgate.com/cgi-bin/article.cgi?f=/c/a/2007/01/21/REGIMNL5TP1.DTL>

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