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Key Goal Delayed at Hunters View New Units Will Be Ready Soon but Initial Ones Won't Be Sold at Market Rates, Setting Back Plan for Mixed- Income Community

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In the San Francisco neighborhood of Hunters Point, one of the city's poorest areas, construction is moving along on three new residential buildings and a park.

Together, they form the first phase of Hope SF, the city's plan to transform its most rundown public-housing projects into mixed-income communities that incorporate open space, good schools and other public services.

But a critical element of the effort at this development, known as Hunters View, has stalled. The Hope SF plan calls for almost half of the 741 new Hunters View units to be sold at market rates, but none of the initial 107 units set to be completed in bunches between November and May will be offered this way.

Construction at Hunters View in the Hunters Point neighborhood of San Francisco. The project aims to transform the public-housing development over the next five years.

That may undermine the goal of what urban-planning experts consider to be one of the nation's most ambitious public-housing makeovers. San Francisco's objective is to break the cycle of poverty that often occurs in areas like Hunters Point by persuading people with more money to buy units and move in, thus reducing the concentration of poor people in the community.

Yet 80 of the initial Hunters View units will be set aside for current residents—who pay below-market rent according to a formula based on their income—and the remaining 27 will be offered for rent at below-market rates to families not currently living there who earn less than 50% of the area's median income, or \$51,500 for a family of four.

"It's hugely problematic," says Mark Joseph, an associate professor of community development at Case Western Reserve University in Cleveland. The longer it takes to integrate market-rate units into the neighborhood, the less likely it is that wealthier people will ever decide to move in, he says.

"Ideally we would have done some market-rate stuff at the same time," says Jack Gardner, president of John Stewart Co., the lead developer at Hunters View. But the housing crash made it impractical, he says, as property prices across the city fell, as did demand for new for-sale units.

Developers and city officials considered delaying the whole project until there was a viable market for full-price units, but decided it was more important to replace the existing ones, he says.

Mr. Gardner says he is confident the city's current housing rebound will create demand for market-rate units in the remaining phases of the Hunters View redevelopment, which are expected to be completed over the next five years. Other construction in the area, like the Hunters Point Shipyard redevelopment project, which isn't public housing, should also help, he says.

San Francisco's Hope SF plan got its start in 2005 when the city learned it would cost \$267 million to transform its public-housing stock into a condition it deemed livable. Those complexes, including Hunters View, Sunnydale in the Visitacion Valley neighborhood and Potrero View in Potrero Hill, were built as temporary structures for military personnel and dock workers after World War II. In many cases there is exposed asbestos and the heating and plumbing don't work, among other problems.

City officials decided to launch a broader plan to replace the developments, with the goal of eventually eliminating poverty in the areas. They dubbed the program Hope SF after a Clinton-era federal program called Hope VI, which replaced some of the country's most rundown public-housing developments with new, mixed-income ones.

The redeveloped Hope VI neighborhoods typically had higher employment rates and incomes and less crime. One reason for the improvements was that few of the former residents—who were given vouchers to pay for rent elsewhere while construction was going on—ended up moving back to the new development, sometimes as little as 15%, says Case Western's Mr. Joseph.

In 2006, San Francisco issued \$95 million in bonds to help fund the Hope SF program. Hunters View, the first development, will cost more than \$250 million in total and is being funded in part by federal and state grants and tax credits. A nonprofit is raising \$25 million to provide services to families in the Hope SF developments.

Hope SF guarantees the current residents of Hunters View, about 130 families, a unit in the new developments, though not all of them will get a place in the initial phase.

The average household income in Hunters View is \$12,750 a year, only 28% of nondisabled adults work, and there is a 53% truancy rate among middle-school age children, according a report prepared by LFA Group, a consulting firm, which will also track how these and other measures change over time. The murder rate is 10 times as high as the city's average, according to the report.

The first phase of the new Hunters View broke ground in 2010. Despite a fire this summer, ruled an arson, at one of the three new buildings, the damage was limited and the first of the new units of the development should be ready for families to move into by the end of the year, according to the developer and city officials.

The rest of the Hunters View redevelopment, when completed, will include retail space, community centers and more parks, in addition to homes. Over time, Hunters View is supposed to include 315 for-sale units at market rates and 267 public units to be rented, in part, by existing residents. Other units will be rented or sold at reduced rates to families below the median income.

People involved in Hope SF say that given the city's now-tight housing market and the planned amenities at Hunters View and other such sites—including some of the best weather and views in the city—there will eventually be demand for the new units at market prices.

"There are a lot of examples of projects like this attracting urban pioneers," says Rich Gross, vice president at Enterprise Community Partners Inc., a nonprofit that consults on public-housing projects. He says the areas covered by Hunters View and other Hope SF projects are among the city's least dense and the last parcels of land that can be developed.

Others point out that simply adding the first phase's 27 below-market rental units, which tend to be snapped up quickly, will help make over the neighborhood.

Still, having a mixed-income site "sends a signal to public-housing people that it is a different development," says Tony Salazar, president of west coast operations at McCormack Baron Salazar, a developer charged with rebuilding Alice Griffith, another Hope SF site.

Mr. Gardner, the Hunters View developer, says even if higher-income people don't move in, the rebuilding will still have benefits. "The least I can do is build way better units where little kids aren't going to have chronic asthma or have rats crawling over their legs," he says.