



EXECUTIVE SUMMARY

HOUSING COMMISSION EXECUTIVE SUMMARY SHEET

DATE: July 20, 2017

HCR17-057

SUBJECT: Authorization to Obtain Loan Secured by Courtyard Apartments

COUNCIL DISTRICT(S): Nine (9)

ORIGINATING DEPARTMENT: Real Estate

CONTACT/PHONE NUMBER: Jennifer McKinney / 619-578-7162

REQUESTED ACTION:

Authorize the President & Chief Executive Officer (CEO), or designee, to leverage the equity to borrow funds secured by Courtyard Apartments, 4395 El Cajon Boulevard & 4262 – 4268 El Cajon Boulevard, in an amount not to exceed 80% of loan to appraised value, on commercially reasonable terms, with the debt coverage ratio not to be less than 1.15 and not to exceed 1.20. The loan will be procured by advertised and direct requests for proposals from lenders. The size of the loan is estimated to be approximately \$5,000,000.

Authorize the President & CEO to use the loan funds to conduct construction and rehabilitation work on Housing Commission-owned rental properties.

EXECUTIVE SUMMARY OF KEY FACTORS:

- Authorize the Housing Commission to leverage the equity to borrow funds secured by Courtyard Apartments, (37 apartments and 3 commercial spaces) located at 4395 El Cajon Boulevard & 4262 – 4268 El Cajon Boulevard, in an amount not to exceed 80 percent of loan to appraised value, on commercially reasonable terms, with the debt coverage ratio not to be less than 1.15 and not to exceed 1.20. The loan will be procured by advertised and direct requests for proposals from lenders. The size of the loan is estimated to be approximately \$5,000,000.
- Authorize the Housing Commission to procure the loan through the advertised and direct requests for proposals from lenders
- Authorize the Housing Commission to use the loan funds to conduct construction and rehabilitation work on Housing Commission-owned rental properties
- Authorize the Housing Commission to convey the Courtyard Apartments property to an affiliate or to an entity that is otherwise wholly-owned by the Housing Commission to the extent reasonably necessary or advisable in order to obtain the financing secured by the Courtyard Apartments property
- Authorize the President & CEO, the Executive Vice President & Chief of Staff, or their designees, to execute all necessary documents and perform such acts are reasonably necessary to implement these approvals upon the advice of General Counsel.



REPORT

DATE ISSUED: July 20, 2017

REPORT NO: HCR16-057

ATTENTION: Chair and Members of the San Diego Housing Commission
For the Agenda of July 28, 2017

SUBJECT: Authorization to Obtain Loan Secured by Courtyard Apartments

COUNCIL DISTRICT: 9

REQUESTED ACTION

SEVEN DAY ADVANCE NOTICE OF SAN DIEGO HOUSING COMMISSION HEARING OF THE FOLLOWING MATTER HAS BEEN PROVIDED TO THE HOUSING AUTHORITY MEMBERS PURSUANT TO THE PROVISIONS OF SAN DIEGO MUNICIPAL CODE SECTION 98.0301(e)(4)(A) AND (B) AND SAN DIEGO HOUSING COMMISSION POLICY NO. PO-RED-300.104.

Authorize the San Diego Housing Commission (Housing Commission) to leverage the equity to borrow funds secured by Courtyard Apartments, 4395 El Cajon Boulevard & 4262 – 4268 El Cajon Boulevard, in an amount not to exceed 80% of loan to appraised value, on commercially reasonable terms, with the debt coverage ratio not to be less than 1.15. The loan will be procured by advertised and direct requests for proposals from lenders. The size of the loan is estimated to be approximately \$5,000,000.

Authorize the Housing Commission to use the loan funds to conduct construction and rehabilitation work on Housing Commission-owned rental properties.

STAFF RECOMMENDATION

That the San Diego Housing Commission (Housing Commission) take the following actions, as described in this report:

1. Authorize the Housing Commission to leverage the equity to borrow funds secured by Courtyard Apartments, (37 apartments and 3 commercial spaces) located at 4395 El Cajon Boulevard & 4262 – 4268 El Cajon Boulevard, in an amount not to exceed 80 percent of loan to appraised value, on commercially reasonable terms, with the debt coverage ratio not to be less than 1.15. The loan will be procured by advertised and direct requests for proposals from lenders. The size of the loan is estimated to be approximately \$5,000,000;
2. Authorize the Housing Commission to procure the loan through the advertised and direct requests for proposals from lenders;
3. Authorize the Housing Commission to use the loan funds to conduct construction and rehabilitation work on Housing Commission-owned rental properties;
4. Authorize the Housing Commission to convey the Courtyard Apartments property to an affiliate or to an entity that is otherwise wholly-owned by the Housing Commission to the extent

reasonably necessary or advisable in order to obtain the financing secured by the Courtyard Apartments property; and

5. Authorize the President & CEO, the Executive Vice President & Chief of Staff, or their designees, to execute all necessary documents and perform such acts as are reasonably necessary to implement these approvals upon the advice of General Counsel.

SUMMARY

The Housing Commission acquired Courtyard Apartments in October 2010 with no amortizing debt, as part of the Housing Commission's 2009 Finance Plan, which was approved by the Housing Commission on September 11, 2009 (HCR09-085) and the Housing Authority of the City of San Diego on October 13, 2009 (HAR09-030). Courtyard Apartments (0.63 acres) consists of two buildings constructed in 2007 and 2008: (I) 4395 El Cajon Boulevard - 33 apartments on four floors with three commercial spaces on the ground floor; and (II) 4262 – 4268 El Cajon Boulevard: 4 townhome apartments with ground-floor garages. The unit mix consists of one-, two- and three-bedroom apartments. The property's 37 apartments have a consistent rental occupancy at or near 100 percent. The three commercial spaces are occupied with multiyear leases. Given this consistent rental receipt cash flow, staff seeks authorization to obtain a loan secured by this property to be repaid from the property's rental receipts, with a debt coverage ratio of 1.15 or greater, and with the loan principal not to exceed 80 percent of loan to appraised value.

In Fiscal Year 2018 (July 1, 2017 – June 30, 2018) the Portfolio Management Department anticipates rehabilitation work on 55 Housing Commission-owned properties (473 apartments). The requested loan secured by Courtyard Apartments represents one source of the capital improvement budget for Fiscal Year 2018. Additional Fiscal Year 2018 capital improvement funding sources are Moving to Work (MTW) and Housing Commission local property funds. The rehabilitation work will impact the Housing Commission's affordable housing portfolios by extending the useful life of the rental properties. The anticipated loan amount of approximately \$5,000,000 will support the rehabilitation of approximately 278 apartments with new windows, kitchen cabinets, countertops, bath vanities, roofing, exterior painting and structural improvements. These improvements will have a direct and positive impact on residents occupying Housing Commission apartments.

Lenders often require that a single asset entity be utilized by the borrower to obtain financing. If that is the case, then the Housing Commission intends to convey Courtyard Apartments to an affiliate or to an entity that is otherwise wholly-owned by the Housing Commission.

FISCAL CONSIDERATIONS

The funding sources and uses proposed for approval by this action were included in the Fiscal Year 2018 Budget. Based upon updated, current estimates, sources and uses would be as follows:

Fiscal year 2018 funding sources:

| | |
|---------------|--------------|
| Loan Proceeds | \$ 5,000,000 |
|---------------|--------------|

Fiscal year 2018 funding uses:

| | |
|--|----------------|
| Capital Improvements (SDHC Portfolio) | 4,900,000 |
| Loan Fees, Due Diligence & Closing Costs | <u>100,000</u> |
| | \$ 5,000,000 |

PREVIOUS COUNCIL AND COMMITTEE ACTIONS

On August 6, 2010, the Housing Commission Board unanimously approved the acquisition of the Courtyard Apartments (HAR10-105).

On September 11, 2009 (HCR09-085) and October 13, 2009, the Housing Commission Board and the Housing Authority of the City of San Diego, respectively, approved the Housing Commission's Finance Plan for Acquisition of New Affordable Housing Units.

COMMUNITY PARTICIPATION and PUBLIC OUTREACH EFFORTS

A Request for Proposals (RFP) to lenders was issued on June 12, 2017. Proposal advertisements were placed in the *San Diego Union-Tribune*, *Voice & Viewpoint* and *La Prensa*. Two responses to the RFP were received: Citi Community Capital and Red Mortgage Capital LLC.

KEY STAKEHOLDERS and PROJECTED IMPACTS

Stakeholders include the Housing Commission, the selected lender and the clients of the Housing Commission who will benefit from the use of the loan funds to rehabilitate the Housing Commission's rental properties.

ENVIRONMENTAL REVIEW

This activity is not a project pursuant to Section 15060(c)(3) of the State of California Environmental Quality Act Guidelines. Processing under the National Environmental Policy Act is not required since no federal funds are implicated in this action.

Respectfully submitted,



Jennifer McKinney
Vice President
Real Estate Operations

Approved by,



Deborah N. Ruane
Executive Vice President & Chief Strategy Officer
San Diego Housing Commission

Hard copies are available for review during business hours at the security information desk in the main lobby and at the fifth floor reception desk at the San Diego Housing Commission offices at 1122 Broadway, San Diego, CA 92101 and at the Office of the San Diego City Clerk, 202 C Street, San Diego, CA 92101. You may also review complete docket materials in the "Public Meetings" section of the San Diego Housing Commission website at www.sdhc.org.