



Good Neighbors

San Diego  
Housing Commission

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# REPORT

**DATE ISSUED:** July 29, 2005

**ITEM 101**

**REPORT NO.:** HCR05-75  
For the Agenda of August 5, 2005

**SUBJECT:** Loan to Townspeople for HIV/AIDS Housing (Council District 7)

**SUMMARY**

**Issue:** Should the Housing Commission approve a loan to Townspeople for acquisition and rehabilitation of a 24-unit apartment complex to be used as rental housing for persons with HIV or AIDS?

**Recommendation:** That the Housing Commission recommend Housing Authority approval of a \$1,310,000 residual receipts loan to fund acquisition and rehabilitation of 4242 51<sup>st</sup> Street and authorize the President and Chief Executive Officer (CEO) to execute any and all documents necessary to make the loan.

**Fiscal Impact:** Approval of this recommendation would result in the expenditure of up to \$1,310,000 in Housing Commission funds.

**Certificate of Funding Availability:**

Certificate No.:	FY06-024
Amount:	\$1,310,000
Revenue Source:	HOME-CHDO / HTF
Division:	Housing Finance and Development
Line Item:	Loans

**Affordable Housing Impact:** The Housing Commission would restrict rents and occupancy of 14 studio units to households with incomes of 45 percent or less of Area Median Income (\$21,750 for one person living in a studio apartment), and 9 studio units to households with incomes of 30 percent or less of Area Median Income (\$14,500 for one person living in a studio apartment). Initially, Townspeople proposes to set rents at a maximum of 41 percent of Area Median Income (AMI). One unrestricted apartment would be reserved for occupancy by



a resident manager. The following table shows a breakdown of the proposed rents by unit size and affordability level. Townspeople would pay for all utilities.

Unit Type	No. of Units	Unit Size (sq. ft)	Restricted Rent	Proposed Initial Monthly Rent	Monthly Market Rent	Maximum Rent Levels @ Percent of AMI	Annual Rent Savings Over Market Rate
Studio	9	300	\$362	\$362	\$550	30 %	\$20,304
Studio	14	300	\$543	\$495	\$550	45 %	\$9,240
Mgr.	1	300					
<b>Total</b>	24						<b>\$29,544</b>

**Environmental Review:** The City of San Diego, as the responsible entity, on July 20, 2005, issued a certification of categorical exclusion pursuant to the applicable provisions of the National Environmental Policy Act (NEPA) 24CFR Part 58, Section 58.35(A)(3). Further, in accordance with the Statutory Worksheet, the responsible entity determined that the project is exempt per 24CFR 58.34(A)(12) and funds may be drawn down for an exempt project without the processing of a Request For Release Of Funds (RROF). Further, the acquisition and rehabilitation of existing facilities is categorically exempt from the provisions of CEQA under the provisions of 14 California Code Of Regulations Sections 15301, 15302, and 15332 among others.

**Previous Related Actions:** On June 29, 2005, the Loan Committee recommended a \$1,310,000 loan for this project.

**Future Related Action:** The recommended loan exceeds the Housing Commission's approval limit of \$250,000 and requires Housing Authority approval.

**Community Planning Group Review:** The proposed development was presented to the City Heights Planning Group for review and comments on February 9, 2005. The project was favorably received; no vote was taken because a planning group vote to approve the project is not required.

**Home Program Compliance:** The proposed development is an allowable activity under HOME Program rules. The proposed rents are at or below HOME guidelines.

**BACKGROUND**

Townspeople submitted an application for funding under the Housing Commission's current Notice of Funding Availability (NOFA) for the Construction, Acquisition, and Operation of Affordable Rental Housing.

## **DISCUSSION**

### The Borrower

Townspeople is a California 501(c)(3) nonprofit corporation certified as a Community Housing Development Organization (CHDO). The organization was established in 1994 with the mission of developing affordable housing for persons living with HIV and AIDS. Townspeople would be the sole owner and the operator of the proposed development; property management would be provided by an on-staff management professional.

This would be the second affordable housing project for Townspeople. In 1995, the Housing Commission loaned the nonprofit \$257,000 for acquisition and rehabilitation of an eight-unit apartment building located at 3845 Wilson Avenue in City Heights. Townspeople successfully operates the Wilson Avenue property as permanent supportive housing for very low-income persons living with HIV or AIDS and is in compliance with Housing Commission loan requirements.

The development team for this proposed project is the staff of Townspeople; the financial consultant is California Housing Partnership Corporation; the relocation consultant is Cutler-Pacific. Townspeople's executive director and project manager is Mr. Jon Derryberry. Townspeople's financial statements were reviewed by Housing Commission staff and found to be satisfactory (see Attachment 5 – Financial Statements).

### The Development

The proposed project is in an older established neighborhood consisting of single family residences and low-density multi-family housing. The site is approximately two blocks south and within walking distance of the bus stops and the retail and service establishments of the El Cajon Boulevard business corridor (see Attachment 1 – Location Map). The three-building, two-story complex is in generally sound condition; however, it will benefit from planned interior and exterior renovation and corrections to structural defects and deferred maintenance.

The complex is currently overcrowded; families living in the 300 square foot studio units are without the living space, security, and other amenities appropriate for households with children. Townspeople will vacate the project prior to rehabilitation of the existing improvements and pay relocation benefits to eligible residents under Federal Law. The renovated units would be restricted to two occupants per apartment. Upon completion of the project, Townspeople would utilize its own resources to assist the new HIV/AIDS symptomatic residents in accessing an array of available service programs to help them obtain proper nutrition, medical care, life skills counseling, case management, and other services.

### The Funding Request

The total development cost for 24 units is estimated to be \$2,755,627 (\$114,818 per unit). The Housing Commission's loan for this project would be \$1,310,000 (\$54,583 per unit).

Permanent financing would consist of the proposed 55-year residual receipts loan of \$1,310,000 from the Housing Commission and a 55-year residual receipts loan of \$1,445,627 from the California Department of Housing and Community Development's Multifamily Housing Program (MHP).

During the predevelopment and acquisition phase, the project will be funded with a \$1,690,000 bridge loan from the Low Income Investment Fund (LIIF), a \$150,000 bridge loan from the Corporation For Supportive Housing (CSH), and a \$10,000 Early Assistance Loan from the Housing Commission. These loans will be taken out with the proceeds of the permanent financing.

A Housing Commission Declaration of Covenants, Conditions, and Restrictions would be recorded against the property requiring the use of 23 units as housing for extremely low-income HIV/AIDS symptomatic households for 55 years. A significant portion of the HIV/AIDS population is extremely low-income because their medical conditions severely inhibit or preclude employment. To restrict rents at levels this targeted tenant population can afford to pay, rents for 14 units would be restricted at 45 percent or less of AMI and rents for nine units would be restricted at 30 percent or less of AMI. To comply with a Housing Commission requirement (Housing Commission Policy Number PO600.301 Section 2.5) that rents be at least ten percent below market rates, Townspeople would initially cap rents at 41 percent of AMI. Rents for the 14 units would be allowed to increase to a maximum of 45 percent of AMI if market rents increase to at least 55 percent of AMI.

After a required minimum annual payment to MHP of .42 percent of the MHP loan amount (\$6,072) Townspeople would retain 50 percent of the residual receipts and the remaining 50 percent would be split equally between the Housing Commission and MHP. All remaining principal and accrued interest of the MHP loan and the Housing Commission loan would be due and payable at the end of the 55-year loan terms.

Because the rents would be restricted at rates affordable to extremely low-income residents, project income would be very limited. This is expected to result in residual receipts payments to the Housing Commission that would not significantly reduce the Housing Commission debt prior to the end of the 55-year loan term. Residual receipts payments would likely increase if Townspeople is able to secure a Federal grant to subsidize operation of the project. (The Housing Commission loan agreement would require Townspeople to make good faith efforts to obtain an operating subsidy and report those efforts in its yearly financial report to the Housing Commission.) Townspeople could sell or refinance the property in 55 years and use its equity to pay off the MHP and Housing Commission loans.

The Financial Plan

Total Development Cost:	The estimated total development cost is \$2,755,627 including relocation, acquisition, rehabilitation, bridge loan interest, contractor overhead and profit, contractor fees, and a developer fee.
Total Cost per Unit:	The estimated total development cost per unit of \$114,818 includes relocation and significant building upgrades such as bathroom fixture replacement, window replacement, structural improvements, and landscaping.
Housing Commission Cost Per Unit:	Estimated per-unit cost of \$54,583 for 24 units.
Appraised Value:	On March 25, 2005, the property was appraised at \$1,600,000 in its "as-is" condition. The "after-rehab" value was appraised at \$1,980,000. The acquisition price of \$1,570,000 is less than the appraised as-is valuation.
First Trust Deed:	A 55-year permanent loan of \$1,445,627 from MHP would be in first position at three percent simple interest per year.
Housing Commission Loan Amount:	The proposed loan would leverage \$1,310,000 of Housing Commission funds against \$1,445,627 from MHP.
Total Loans-to-Value:	Loans-to-value is estimated to be 139 percent.
Housing Commission Loan Terms:	A 55-year residual receipts loan at three percent simple interest per year.
Housing Commission Security:	The Housing Commission loan would be subordinate to the MHP loan and secured by a second trust deed recorded against the property.
Housing Commission Recourse:	The loan would be a recourse loan to Townspeople.

Housing Commission Loan Payments:	Townspeople would receive 50 percent of residual receipts after a minimum annual payment of \$6,072 to MHP. The remaining 50 percent would be split between MHP and the Housing Commission. Remaining principal and interest of the Housing Commission loan would be due and payable at the end of the 55-year loan term. Townspeople would be required to seek an operations subsidy.
Minimum Debt Service:	Debt service consists of a minimum annual payment of .42 percent on the MHP loan (\$6,072).
Affordability Restrictions:	A Housing Commission Declaration of Covenants, Conditions, and Restrictions with a 55-year term recorded against the property.
Management Plan:	A Management plan was reviewed and approved by Housing Commission staff. The management plan is subject to periodic review and approval by the Housing Commission in its reasonable discretion.
Operating Expense:	Operating expenses are estimated to be \$7,489 per month (\$312 per unit).
Pro Forma Assumptions:	Income increases are projected at 2.5 percent per year; operating expenses at 3.5 percent per year; vacancy rate at 5 percent per year.
Reserves:	An annual replacement reserve of \$10,608 is included in the operating expenses. Use of reserves would be subject to the reasonable approval of the Chief Executive Officer of the San Diego Housing Commission.

### Risks and Mitigations

The appraisal indicates that there would be insufficient value to secure the Housing Commission loan. It is also important to note that the deep affordability would result in highly restricted residual cash flow, which makes it unlikely that residual receipts payments would significantly reduce the Housing Commission debt. Although the value of the property is

expected to increase, it is possible that Townspeople's equity would not be sufficient to retire the loan in 55 years. Because the Housing Commission loan would be subordinate to an MHP loan that would not be forgiven, any proceeds of sale or refinancing would go first to pay off the senior debt. The Housing Commission would be reimbursed only to the extent of equity remaining after the MHP loan is paid off.

The risk of insufficient cash flow would be somewhat mitigated if Townspeople is able to secure project-based rental assistance from the Federal Shelter Plus Care program. (Shelter Plus Care provides financial support for long-term housing of homeless persons with disabilities, including AIDS.) Although the Housing Commission would require Townspeople to pursue Shelter Plus Care participation in this project, it is not certain that Townspeople would be successful in obtaining a grant because the awards are made by HUD on a competitive basis. In the event of a monetary default by Townspeople, the Housing Commission would have cure rights to step in and assume or retire the MHP debt and locate a successor nonprofit to acquire and operate the project.

A release of Housing Commission funds for this project would be conditional upon the borrower receiving the MHP loan.

### Conclusion

In its Housing Needs Assessment of the rental housing market, the City's 2005 Consolidated Plan identifies persons with disabilities related to HIV or AIDS as a special needs population and concludes that providing rental housing for these and other extremely low-income households should be a high priority. In San Diego, high building costs and other factors prohibit for-profit and most nonprofit affordable housing providers from developing housing to meet the requirements of these extremely low-income residents. This proposed acquisition and rehabilitation of 24 units would help reduce a shortage of permanent supportive housing for persons with HIV or AIDS who are at risk of becoming homeless.

### **ALTERNATIVE**

The Housing Commission could deny this proposed loan. Because the other lender's commitment is contingent upon the developer securing gap financing from the Housing Commission, a decision to not approve the loan could result in the withdrawal of a proposal to provide 24 units of permanent supportive housing to a special needs tenant population at risk of homelessness.

Submitted by,

**Signature on File  
With Original Document**

Approved by,

Cissy Fisher  
Director of Housing Finance and Development

Elizabeth C. Morris  
President and Chief Executive Officer

- Attachments:
1. Location Map
  2. Development Summary
  3. Development Timeline
  4. Disclosure Statement \*
  5. Financial Statements \*
  6. General Application Forms

\*Distribution of this attachment is limited. A copy is available for review at the Housing Commission office at 1625 Newton Avenue and the office of the City Clerk, 2<sup>nd</sup> floor, 202 "C" Street.

Information: Mr. Dan Cady (619) 578-7594

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## ATTACHMENT 2

### DEVELOPMENT SUMMARY August 5, 2005

Name: Townspeople HIV/AIDS Housing  
Location: 4242-4260 51<sup>st</sup> Street  
Description: Rental housing for persons with HIV/AIDS  
Sponsor: Townspeople

#### Unit Affordability

Total # of units: 24  
Assisted units: 23  
Restricted rents: 9 studios @ \$362  
14 studios @ \$495  
Market rent: studio units rent for approximately \$550 per month  
Percent of AMI: 9 units at 30 percent of Area Median Income and 14 units at 45 percent or less of Area Median Income.  
Affordability: 55 years

#### Development Cost

Total development cost:	\$ 2,755,627
HC development cost:	\$ 1,310,000
Total per unit development cost:	\$ 114,818
HC cost for 24 units:	\$ 54,583
HC subsidy per bedroom (24 br's):	\$ 54,583

#### Sources of Funds

MHP Loan	\$ 1,445,627
Housing Commission Loan	\$ 1,310,000

#### Pro Forma Summary

Estimated annual income:	\$ 118,332 (year 1)
Estimated annual expense:	\$ 89,862 (year 1)
Annual debt service:	\$ 6,072 (total annual payment)
Estimated residual receipts	\$ 11,791 (year 1)

ATTACHMENT 3

**TOWNSPEOPLE  
ESTIMATED DEVELOPMENT TIMELINE**

September 13, 2005	Loan to the Housing Authority for approval
October 13, 2005	Loan closing
October 16, 2005	Start of rehabilitation
April 28, 2006	Completion of rehabilitation