



Good Neighbors

San Diego
Housing Commission

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REPORT

DATE ISSUED: October 21, 2005

ITEM 101

REPORT NO.: HCR05-95
For the Agenda of October 28, 2005

SUBJECT: Loan for Hope Village Apartments (Council District 3)

SUMMARY

Issue: Should the Housing Commission recommend approval of a loan of up to \$982,000 to the Jewish Family Service of San Diego to fund the acquisition and rehabilitation of a 20-unit apartment complex located at 5288 El Cajon Boulevard for use as permanent supportive housing?

Recommendation: That the San Diego Housing Commission recommend Housing Authority approval by the following actions:

- (a) Approve a 3% percent interest residual receipts loan of up to \$982,000 as outlined in this report including the receipt of additional state and federal financing identified herein; and,
- (b) Authorize the President and Chief Executive Officer of the Housing Commission, or designee, to execute all documents necessary to facilitate the financing.

Fiscal Impact: Approval of this recommendation would result in the issuance of an auditor's certificate and expenditure of up to \$982,000 in Housing Commission funds using HOME Program funds or other funds.

Certificate of Funding Availability:

Certificate No:	06-060
Amount:	\$982,000
Revenue Source:	HOME Program-CHDO / HTF
Division:	Housing Finance & Development
Line Item:	Loans



Affordable Housing Impact: This project will create nineteen (19) units for the development of permanent supportive housing for chronically homeless, seriously mentally ill adults. A resident manager will occupy one non-restricted, one-bedroom unit. Anticipated financing from the State of California Multi Family Housing Program (MHP) financing program requires that 100% of the units provide affordability at 60% AMI (\$29,000 for a family of one) or less. To make the units affordable to the extremely low-income target population, rents would be further subsidized with a grant from HUD's Shelter Plus Care program to make up the difference between the rents necessary to support the development and the rents the target tenant population can afford to pay (30% of gross income). The following table describes the units by size and proposed initial rents:

Unit Type	Unit Size (sq. ft.)	No. Of Units	Initial Monthly Rent	Maximum Percent of Area Median Income of Eligible Households	Monthly Average Tenant Rent	Monthly Market Rent *
Studio/1b	450	12	\$725	60%	\$225	\$836
1br/1ba	575	7	\$828	60%	\$225	\$955
1br/1ba	575	1	MGR			
Total		20				

* Per SDHC Rental Assistance Program determination of Fair Market Rate (FMR).

Home Program Compliance: The proposed permanent financing and rehabilitation of this development is an allowable activity under HOME Program rules.

Equal Opportunity Statement: Jewish Family Service (JFS) and its development partner, The Association for Community Housing Solutions (TACHS), are in compliance with the Housing Commission's Equal Opportunity Programs.

Environmental Review: The proposed development has been reviewed by the City of San Diego under the California Environmental Quality Act (CEQA) pursuant to Section 15301 of the CEQA guidelines and has been determined to be exempt. The proposed development has also been determined to be categorically excluded according to 24CFR 58.35(a)(3) under the National Environmental Protection Act (NEPA). This project converts to Exempt per Section 58.34(a)(12) because it does not require mitigation.

Community Planning Group Review: This acquisition and rehabilitation proposal was presented to the Kensington-Talmadge Planning Group on September 14, 2005, where it was approved by a unanimous vote to support the proposed project.

Previous Related Action: On October 11, 2005, the Loan Committee recommended approval of a Loan of up to \$982,000.

Future Related Action(s): Approval of this recommendation for a loan will be sought from the Housing Authority.

BACKGROUND

It is estimated that at least 75% of San Diego's homeless are single adults, with 30% of those residents exhibiting some form of mental disability. There are also significant numbers of mentally ill individuals who may be classified as near homeless, those who live in shelters or transitional housing facilities. The targeted tenant population is characteristically extremely low income, with a typical income consisting solely of a monthly Social Security payment of less than \$750. A monthly housing cost affordable to this group would be a maximum of thirty percent of actual gross income, or approximately \$225.

As identified in the City of San Diego's FY2006 Action Plan for Community Development, the consolidated plan goals include providing permanent supportive housing that enables extremely low-income residents with special needs to live independently. Many mentally ill residents are at risk of becoming chronically homeless due to a cycle of institutionalization, transition, and relapse because of a lack of decent and affordable permanent housing. By providing destinations for persons graduating from transitional housing, permanent supportive housing frees transitional housing beds and makes them available to homeless persons who would otherwise have to compete for scarce shelter beds or live on the streets.

On behalf of JFS, TACHS submitted this application for funding of special purpose housing under the Housing Commission's current Notice of Funding Availability (NOFA) for the Construction, Acquisition, and Operation of Affordable Rental Housing. The application was reviewed by staff and deemed to be complete.

In the Federally-funded HOME Program, at least 15 percent of the funds allocated to participating jurisdictions are specifically reserved for use by community-based organizations that have been certified as Community Housing Development Organizations (CHDOs). TACHS has achieved CHDO certification. According to the U.S. Department of Housing and Urban Development, a CHDO is considered a developer if it has a contractual obligation to a property owner to obtain financing and to rehabilitate or construct a project. Under this arrangement, TACHS will assume all risks and rewards associated with being a project developer. TACHS' specific obligations are detailed in a written contractual agreement with JFS.

DISCUSSION

THE DEVELOPER

Jewish Family Service (JFS) is a long-time provider of social services in the San Diego region; JFS has nine locations including the Berman Senior Center. JFS provides a variety of services to families, seniors and children; services include counseling, food assistance, information and referral. Hope Village would be the first permanent supportive housing development that would be owned and developed by JFS.

The Association for Community Housing Solutions (TACHS) will partner with JFS as the development partner and residential property manager. TACHS is a local non-profit 501(c)(3) housing developer with corporate offices in the City of San Diego, and properties throughout the county. Founded in 1994 with the mission of developing housing for the City's mentally ill homeless, TACHS is one of the only housing developers in San Diego County focusing solely on the development of permanent supportive housing for low-income, special-needs individuals. TACHS offers extensive experience in the residential development and management of this type of program. TACHS has previously worked with the San Diego Housing Commission on the acquisition and rehabilitation of the 34-unit Parker-Kier Apartments and the 13-unit Paseo Glenn Apartments, and the acquisition and new construction of the 18-unit Reese Village project.

THE PROPERTY

Hope Village is located in the Talmadge neighborhood, west of the College area. Public transportation, restaurants, and stores offering groceries and basic necessities are all within walking distance of the site. The U-shaped, two story structure was originally constructed in 1958 as an annex to the former El Portal Motor Hotel. (El Portal is now the site of the 91-unit Talmadge Senior Village anticipated for completion in July 2006.) The annex originally offered daily-weekly-monthly rentals to guests in kitchenette and one-bedroom units that surround a pool area; the annex had been in operation for a number of years as private apartments.

The building rehabilitation will include termite treatment, asbestos and lead-based paint abatement. Two units will be retrofitted to Americans with Disabilities Act (ADA) standards and the tenets of universal design to provide improved access. Additional improvements will include upgraded electrical, plumbing, and all finishes. The windows will be dual-pane, energy efficient units. The kitchen cabinets, appliances, plumbing fixtures, and flooring (which contain asbestos) will be replaced. The bathrooms will be similarly improved. The in-ground pool will be filled in and landscaped to provide common open area. Fencing replacements, water heaters, guttering, color coating, laundry and dryer equipment, security lighting and ADA ramping will also be part of the proposed rehabilitation improvements.

THE FUNDING REQUEST

The developer is requesting that the San Diego Housing Commission approve a \$982,000 loan. The developer is also applying for a \$1,715,931 loan from the State of California's Multifamily Housing Program (MHP) and a HUD Supportive Housing Grant in the Amount of \$400,000. The Hope Village application to HUD is the number one ranked proposal for funding in the City of San Diego. Bridge financing for acquisition was provided by the Corporation For Supportive Housing (\$610,000) and the Low Income Housing Fund (\$735,000). The developer also received a \$380,000 private mortgage loan with San Diego National Bank for acquisition. The acquisition bridge financing will be taken out with a combination of MHP and HUD funds.

The borrower is applying for financial assistance from the following sources with anticipated development funding as follows:

Multifamily Housing Program (MHP)	\$1,715,931
San Diego Housing Commission	982,000
HUD Supportive Housing Program Grant	400,000
Private Bank Loan	<u>380,000</u>
TOTAL FUNDING SOURCES	\$3,477,931

The borrower is requesting approval of a 55-year, 3% interest residual receipts loan in the amount of \$982,000 from the San Diego Housing Commission secured by a third trust deed against the property. Debt service on the loan will be 50% of residual receipts (cash flow). Annual payments will equal the greater of 50% of residual receipts or \$3,650, which is equal to 25% of the estimated Year One cash flow value. Alternatively, each year JFS can ask the San Diego Housing Commission to set aside any amount of residual receipts in an operating reserve to protect the project should the rent subsidy program terminate at a future date.

After a required minimum annual administrative payment to MHP of .42 percent of the MHP loan amount (\$7,207), the Deferred Developer Fee would be paid from annual residual receipts. Once the Deferred Developer Fee is paid off, all future residual receipts would be split equally between the Housing Commission and JFS on an annual basis. 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. A release of any Housing Commission loan funds for this project would be conditional upon the borrower receiving approval of the MHP loan.

The developer now owns and operates the property, which has been appraised at \$1,800,000. The Total Development Cost is \$3,477,931, with a per-unit cost of \$172,765. The per-unit cost to the San Diego Housing Commission is \$49,100. The current estimated rehabilitation cost is based on applicable state prevailing wages, relocation of existing renters, consideration for the relatively small size of the development, and fluctuation in construction material prices.

The appraisal indicates that there would be insufficient value to secure the Housing Commission loan. Although no "After Rehabilitation" appraisal has been generated, the value of the property will increase due to the extensive capital improvements planned for the development. It is also important to note that the proposed affordability would result in highly restricted residual cash flow, which makes it unlikely that residual receipts payments would fully reduce the Housing Commission debt. 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. In the event of a monetary default by the borrower, 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.

The risk of insufficient cash flow is somewhat mitigated as Hope Village has been 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.) The rental assistance has been approved for five years with annual renewals commencing in Year Six.

Shelter Plus Care is a HUD McKinney Act homeless assistance program, and operates under different regulatory authority from the HOME Program. As a result, Shelter Plus Care does not limit the maximum rent that the development can earn to the 60% AMI rent level as with the HOME Program. Instead, Shelter Plus Care allows payment of the locally determined Fair Market Rent (FMR) to the development, and restricts the tenant portion of the rent payment to be no greater than 30% of the household adjusted income, and no greater than the targeted income level set for the unit. This allows the development to collect the FMR, which is higher than the 35% AMI and 25% AMI rent levels targeted in the State of California MHP application. This allowance would be incorporated into the Covenants, Conditions and Restrictions. With such an allowance, the developer intends to set the rent rate at slightly less than the FMR for Shelter Plus Care. This will allow the developer to utilize the proposed rent rates at \$825 for the studio unit that has an FMR of \$836 and \$940 for the one-bedroom unit that has an FMR of \$955. However, for purposes of pro forma analysis by the San Diego Housing Commission, the rental income is calculated at the HOME Program 60% AMI rent level (\$725 and \$828 respectively).

When the pro forma analysis is based on rents received at the FMR level above, the deferred developer fee is paid off in three years versus seven. Additionally, the residual receipts payment begins in Year Three versus Year Seven. The residual receipts payment to the San Diego Housing Commission will occur sooner and is also increased by \$3,921 from the first payment in Year Seven at \$5,569 to Year Three at \$9,490.

The Financial Plan

Total Development Cost (TDC):	The total development cost is \$3,477,931, which includes all development costs.
Appraised Value:	The “as-is” Market Value is \$1,800,000.
Security:	The San Diego Housing Commission loan (\$982,000) will be subordinate to a private lender loan. The Commission loan amount will be secured by a second trust deed against the property.
Loans-To-Value:	1.71 using “pre-rehabilitation” value.
Hard-Payment Loan-To-Value:	4.74
First Trust Deed:	A \$380,000, 30 year, 6.50% percent loan from San Diego National Bank.
Payments on the First Trust Deed:	Annual debt service payments will be \$28,822.

Second Trust Deed:	A \$1,715,931, 55 year, 0% percent loan from the State Multifamily Housing Program.
Payments on the Second Trust Deed:	Annual administrative fee of \$7,207.
Third Trust Deed:	A \$982,000, 55 year, 3.0% percent loan from the San Diego Housing Commission.
Payments on the Third Trust Deed:	After payment of the first and second position loan, annual debt service payments will equal the greater of 50% of residual receipts or \$3,650.
Rent Restrictions:	A Declaration of Covenants and Restrictions with a 55-year term will be recorded against the property. Nineteen units will be affordable to households earning 60% of area median income (AMI) or less.
Occupancy Restrictions:	Occupancy of 19 of the 20 of the units will be restricted to households earning no more than 60% of AMI.
Recourse:	The loan will be a recourse loan to Jewish Family Service of San Diego.
Term:	Fifty-five years.
Management Plan:	A Management Plan has been approved.
Operating Expense:	Average operating expense of \$448 per unit per month.
Pro Forma Assumptions:	Income increases are projected at 2.5 percent per year; expense increases are projected at 3.5 percent per year; vacancy is projected at 10.0 percent per year due to the nature of the transitional housing population group.

Risks and Mitigations

This loan has risk because long term operating funds for special purpose housing are not guaranteed. The San Diego Housing Commission loan for this project will be in third position behind a first position, \$380,000, 30-year private bank loan and contingent upon approval of

a second position \$1,715,931 state loan. The “as-is” value is not sufficient to secure the San Diego Housing Commission loan. This project is strengthened by the applicant’s partnership with TACHS which has a strong performance record with similar projects. The proposed loan represents 28% of the project cost.

Shelter Plus Care allows payment of the locally determined FMR to the development. This scenario recognizes the special costs and challenges in operating Special Needs and Supportive Housing, and allows the development to serve the needs of extremely low-income households while providing critically necessary rent subsidy for the higher than average project operating costs associated with this type of housing.

The Housing Commission would be making a loan for a project with a total cost likely exceeding market value. This may be deemed an acceptable risk because the developer is experienced and will extend the service life of the improvements while providing units at to an underserved housing population group.

ALTERNATIVES

The Housing Commission could deny this request for financing. However, the project is consistent with the City of San Diego's FY2006 Action Plan for Community Development, regarding consolidated plan goals to providing permanent supportive housing. The proposed development meets the Special Purpose housing program criteria and provides an opportunity to leverage an additional \$2,495,931 in resources for affordable housing development.

Respectfully submitted,

Approved by,

Cissy Fisher
Director of Housing Finance & Development

**Signature on File
With Original Document**

Elizabeth C. Morris
President &
Chief Executive Officer

INFORMATION: C. C. de Baca, 619-578-7586

Attachment(s) 1. Development Timeline
 2. Development Summary
 3. SDHC Application Form
 4. Location Map
 5. Disclosure Statement*
 6. Financial Statements*

7. Appraisal Summary*

*Limited distribution. Copies are available for review at the San Diego Housing Commission office located at 1625 Newton Avenue and at the Office of the City Clerk, 2nd Floor, 202 C Street.

ATTACHMENT 1

**Hope Village Apartments
The Association for Community Housing Solutions (TACHS)
ESTIMATED DEVELOPMENT TIMELINE**

Loan Committee Approval	October 11, 2005
Housing Commission Consideration*	October 28, 2005
Housing Authority*	November 22, 2005
SDHC Loan Closing Date	November 2005
Construction Start	December 2005
Estimated Rehab Construction Completion	July 2005

* Each subsequent consideration is contingent on affirmation of the project from the prior recommending or approval body.

ATTACHMENT 2

Development Summary
October 21, 2005

Name: Hope Village Apartments
Location: 5288 El Cajon Boulevard, San Diego
Description: Permanent supportive housing for chronically homeless, mentally ill adults
Sponsor(s): The Association for Community Housing Solutions (TACHS)

Unit Affordability

Total # of units: 20
Assisted units: 19
Restricted rents: 12 – Studios @ \$725; 7 – one bedroom @ \$828 (60%)

Market rent (Fair Market Rent): Studio: \$836
1 Bedroom: \$955

Percent of AMI: 19 units @ 60 percent

Affordability: 55 years

Development Cost

Total development cost: \$3,477,931 \$ 348 per square foot
HC development cost: \$ 982,000
Total development cost per unit: \$ 173,897
HC cost per unit (20 units): \$ 49,100

Sources of Funds

San Diego Housing Commission \$ 982,000
HUD Supportive Housing Grant \$ 400,000
State of California MHP \$1,715,931
Private Loan \$ 380,000
Total Development Cost \$3,477,931

Pro Forma Summary

Estimated net annual income: \$ 58,435 (year 1)
Estimated annual expense: \$ 43,822 (year 1): \$4.38 per square foot
Estimated residual receipts: \$ 14,612 (year 1 without Deferred Developer Fee payment)