



Good Neighbors

San Diego
Housing Commission

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REPORT

DATE ISSUED: March 12, 2004

ITEM 101

REPORT NO.: HCR04-024
For the Agenda of March 19, 2004

SUBJECT: Loan for Bayview Legacy Residences Phase I, located at 325 54th Street
(Council District 4)

SUMMARY

Issue: Should the Housing Commission recommend that the Housing Authority approve a loan to redevelop Acacia Imperial Trailer Park, providing seventy-two units of new affordable rental housing?

Recommendation: That the Housing Commission recommend approval of a residual receipts loan of \$3,600,000 to Bayview Legacy Residences I, Limited Partnership (Partnership), at three percent simple interest per year, and authorization for the Chief Executive Officer, or her designee, to execute any and all documents necessary to facilitate this loan.

Fiscal Impact: Approval of this recommendation would result in an expenditure of up to \$3.6 million of Housing Commission funds. If this project receives an allocation of at least \$13,182,000 in federal tax credit financing by December 31, 2005, an auditor's certificate committing \$3,600,000 will be issued using HOME or other funds.

Affordable Housing Impact: For fifty-five years the apartment units would be affordable to low-income and very low-income families earning between thirty percent of Area Median Income (currently \$20,550 for a family of four) and sixty percent of Area Median Income (currently \$41,100 for a family of four). One apartment would be reserved for occupancy by a resident manager.



The following is an outline of estimated affordable rents, less utilities, for the proposed development:

Unit Type	Unit Size (sq. ft.)	No. of Units	Rent Levels @ Percent of AMI	Proposed Initial Monthly Rent	*Monthly Market Rent	Annual Rent Savings Over Market Rate
2br/2ba	900	4	60%	\$887	\$1,000	\$5,424
2br/2ba	900	9	50%	\$733	\$1,000	\$28,836
2br/2ba	900	3	45%	\$656	\$1,000	\$12,384
2br/2ba	900	2	30%	\$425	\$1,000	\$13,800
3br/2ba	1,063	8	60%	\$1,021	\$1,200	\$17,184
3br/2ba	1,063	18	50%	\$843	\$1,200	\$77,112
3br/2ba	1,063	6	45%	\$754	\$1,200	\$32,112
3br/2ba	1,063	4	30%	\$487	\$1,200	\$34,224
4br/2ba	1,200	4	60%	\$1,132	\$1,300	\$8,064
4br/2ba	1,200	9	50%	\$934	\$1,300	\$39,528
4br/2ba	1,200	3	45%	\$834	\$1,300	\$16,776
4br/2ba	1,200	2	30%	\$536	\$1,300	\$18,336
2br/2ba	1,100	1 mgr				
Total						\$303,780

* Monthly market rents are comparable rents taken from a neighborhood rent survey performed by KCW Consulting, Inc.

Environmental Review: The City completed environmental review of the project (Project No. 16616) under the California Environmental Quality Act (CEQA), which resulted in a Mitigated Negative Declaration, and under the National Environmental Policy Act (NEPA), which resulted in a Finding Of No Significant Impact (FONSI).

Community Planning Group Review: This proposed project is supported by City Council District 4 and the Southeastern Economic Development Corporation (SEDC). The development proposal was presented to the Encanto Community Planning Group on February 9, 2004. Because a quorum could not be met, a vote to approve the project was not taken. The developer will receive project approval from the Planning Group prior to the Housing Commission meeting.

Home Program Compliance: The proposed financing for this development is an allowable activity under HOME Program rules.

Equal Opportunity Statement: The Partnership is in compliance with the Housing Commission's Equal Opportunity requirements.

Previous Related Action: This project will be reviewed by the Loan Committee on March 16, 2004.

Future Related Actions: The recommended \$3,600,000 loan would be forwarded to the Housing Authority for approval.

BACKGROUND

The City issued a Notice of Violation and Non-Compliance to the previous owners of Acacia Imperial Trailer Park on December 2, 1993. The order cited violation of San Diego Municipal Code Section 12.0801 which governs the operation of mobile home parks. Beginning in 1994, the Housing Commission worked with the City of San Diego and various community organizations to formulate an appropriate reuse plan for the property. On May 10, 2002, the Housing Commission approved a \$173,887 predevelopment loan to Bayview Community Development Corporation (Bayview CDC) to perform feasibility studies and preliminary design work for the proposed development.

Bayview Legacy Residences I, LP requested a Housing Commission loan commitment to gain readiness points in time to meet the submittal deadline for the first round of nine percent tax credit funding in 2004. The developer is preparing an application to the Redevelopment Agency of the City of San Diego under its current Affordable Housing Notice of Funding Availability (NOFA). Should the Redevelopment Agency request be approved, the Housing Commission loan commitment would be reduced or withdrawn. The Housing Commission would provide project management for a Redevelopment Agency loan and any Housing Commission loan to the project.

DISCUSSION

Summary

The following is a summary of the financing plan for Bayview Legacy Residences Phase I:

1. The property was purchased by the developer with private financing.
2. The developer would obtain a loan commitment from the Housing Commission if this loan is approved by the Board of Commissioners. This commitment would be contingent upon the project's receipt of nine percent tax credits.
3. The developer would submit an application to the State for nine percent tax credits in April 2004.

4. Contingent upon the project's receipt of nine percent tax credits and Redevelopment Agency approval, a loan would be obtained from the Redevelopment Agency to take out the Housing Commission financing.
5. The developer would obtain City approval to reconfigure the boundaries of the existing parcels to accommodate construction of the project in three phases.

The Development

Bayview Legacy Residences would be built on the site of Acacia Imperial Trailer Park. Located near the southern bank of Chollas Creek, the existing 95-space trailer park is approximately thirty-eight years old (see Attachment – 1 for the Location Map). Situated in an area of low-density multi-family and single-family housing, the 5.3-acre site has good access to public transportation, freeways, and shopping. It is within easy walking distance of the Imperial Marketplace, a major retail and commercial complex developed by the Southeaster Economic Development Corporation.

The trailer park is occupied by coaches ranging in size from single-wide 40-foot mobile homes to 12-foot campers mounted on trucks. The common area improvements include a manager's office, a laundry facility, and a community building. Because of the small size of the spaces, the limited capacity of the utility hookups, and general deterioration of the property due to the age of the improvements, operation of a trailer park at the site is no longer economically feasible. The previous owner was cited by the City for code violations including insufficient site drainage, improper utility hookups, and a lack of security.

In compliance with all applicable relocation laws, the developer would pay the costs of moving the residents and their coaches to comparable spaces or purchasing the coaches and moving the residents into conventional housing. The Housing Commission would work to obtain Section 8 housing vouchers for eligible residents interested in relocating. A cursory study indicates the majority of the residents would be eligible to live in HOME-assisted housing under the income restrictions. Following construction, former trailer park residents who qualify under the HOME program and the tax credit program would receive priority consideration for leasing of the new apartments.

Following relocation of the residents, Acacia Imperial Trailer Park would be demolished and the first phase of the development, consisting of eighteen 4-bedroom units, thirty-six 3-bedroom units, eighteen 2-bedroom units and one 2-bedroom manager's unit, would be constructed in three 3-story buildings. Phase I amenities would include laundry facilities, a separate community building, a playground, and ball courts. Construction of the residential component of the project would be performed in two phases of seventy-two units each in order not to exceed the maximum allowable amount of tax credits available in a single round, based on its "qualified basis". If an application for 2004 tax credits is successful for Phase I, the developer would apply for nine percent tax credits in the second round of 2005 to finance construction of Phase II. Phase

I of the proposed project is designed to stand alone as a viable affordable rental housing development in the event that the second and third phases cannot be completed.

To facilitate development of Phase II, the Partnership would obtain approval to consolidate the four existing parcels and configure the boundaries to produce three lots that mirror the square footage requirements of each phase. Phase II would consist of seventy-two affordable apartment units and one manager's unit in three 3-story buildings on the second lot. In Phase III, following completion of the two residential components, a day care center would be built on the third parcel using funds from private sources. Following completion of all three phases, the day care facility would be available for use by tenants of Bayview Legacy Residences and other neighborhood residents.

The Financing Plan

The Partnership will apply for an \$8,000,000 loan from the Redevelopment Agency. Because the Partnership is seeking nine percent tax credits in 2004, and underwriting by Housing Commission staff is largely complete, the developer requested bridge financing from the Housing Commission in order to obtain readiness points for its tax credit application while Redevelopment Agency financing is pursued. Upon the project's receipt of nine percent tax credits, the Housing Commission loan would remain in effect until the Partnership can obtain the Redevelopment Agency loan.

With City approval to divide the site into two legal parcels, security for the Housing Commission loan would be restricted to the value of the Phase I parcel until completion of construction. Prior to construction of the buildings, the Housing Commission loan would be partially unsecured because the loan would exceed the value of the vacant parcel and there would be no recourse against the other assets of the developer. Due to Internal Revenue Service regulations, loans to tax credit developments become non-recourse upon the creation of a limited partnership for tax credit syndication.

The developer acquired Acacia Imperial Trailer Park at a total cost of \$2,000,000 with a loan from SunAmerica. An appraisal dated December 23, 2003, gives an "as-is" valuation of \$2,260,000 for the property (see the Appraisal Summary in Attachment – 5). The estimated total development cost of Phase I, including the cost of the land, is \$20,353,897. Housing Commission funds of \$3.6 million (\$50,000 per unit) would leverage \$16,753,897 from other sources. Funds would be applied to the hard and soft costs of development, including land cost and the relocation of trailer park residents. Of the \$3.6 million loan, up to \$2 million would be disbursed at closing, with the balance to be paid out during construction. Tax credit equity of approximately \$13.2 million would be the largest single component of Phase I financing. The Partnership would defer \$800,000 of its \$1.4 million developer fee through the construction period. The developer fee would be paid in full following completion of construction and lease-up of seventy-two units.

This proposed loan is in excess of the \$2 million limit set forth in the current Notice OF Funding Availability For Construction, Acquisition, And Operation Of Affordable Housing (NOFA) under which the developer applied. The Housing Commission will update and re-issue this NOFA in Fiscal Year 2005 with underwriting standards that do not include a maximum loan amount so the Housing Commission may consider proposals on an individual basis. The scope of developments applying for gap financing from the Housing Commission, and the cost of those developments, have increased substantially since the NOFA was issued on January 11, 2002, rendering the loan cap of \$2 million infeasible.

Should funding of this bridge loan be necessary, a deed of trust, and a regulatory agreement requiring affordability restrictions for fifty-five years, would be recorded against the property by the Housing Commission. In the event of the Partnership's failure to secure Redevelopment Agency funding, or if the Redevelopment Agency approves a lesser amount, the Housing Commission loan would remain in an amount proportionate to the financing gap up to a maximum of \$3.6 million.

Bayview CDC's predevelopment loan agreement with the Housing Commission requires repayment of the no-interest loan at the earlier of August 4, 2004, or permanent financing of the project. If the Redevelopment Agency loan is obtained, the \$173,887 predevelopment loan would be paid off with a portion of those funds. If the Redevelopment Agency loan is not obtained, Bayview CDC would be unable to pay off the Housing Commission. The Housing Commission would seek approval to convert the predevelopment loan to a grant, thus increasing Housing Commission funding for Phase I to \$3,773,887. If the Redevelopment Agency loan is sufficient to pay the costs of completing the project, but not to pay off the Housing Commission's predevelopment loan, conversion to a grant would make Housing Commission participation \$173,887 for seventy-two units (\$2,415 per unit).

The Developer

Bayview CDC applied to the Housing Commission for funding of this development in April 2002. With a predevelopment loan from the Housing Commission, Bayview CDC obtained site control from the seller of the property and completed conceptual design. Recognizing its lack of expertise to undertake a development of this scope, Bayview CDC contracted with KCW Consulting to act as the developer. Bayview CDC and KCW Consulting formed Bayview Legacy Residences I, Limited Partnership to develop and own the project. The Partnership will apply for tax credits and other financing; it would own Bayview Legacy Residences I as its sole asset. The nonprofit Orange Housing Development Corporation (OHDC) is the managing general partner and SunAmerica Housing is the limited partner and the tax credit investor. As a nonprofit administrative partner, Bayview CDC would provide tenant services and foster the development's relationships with neighborhood residents, community organizations, and area businesses.

KCW Consulting is the Partnership's financial consultant and would be the project manager during construction. KCW Consulting has twenty-five years of experience in acquisition,

development, financing, and construction. KCW's principal and project manager, Mr. KC Wilson, was the development partner of OHDC in the development of Otay Mesa Family Villas.

Orange Housing Development Corporation, based in the City of Orange, California, specializes in the development of affordable housing and was certified as a Community Housing Development Organization (CHDO) in Orange County. This would be the third multi-family housing development for OHDC in San Diego. The nonprofit is the managing general partner for Otay Mesa Family Villas, a 42-unit development successfully completed in 2002. OHDC's project manager for Bayview Legacy Residences Phase I is Mr. Eunice Bobert. OHDC is currently in compliance with the terms of its agreements with the Housing Commission.

Bayview CDC is a local nonprofit organization that provides affordable housing programs and services that emphasize job training, computer training, homebuyer information and other self-sufficiency counseling and instruction. Bayview CDC developed 162 affordable rental housing units which it owns and operates in San Diego. The nonprofit has four loans from the Housing Commission, including the \$173,887 predevelopment loan for this project and approximately \$400,000 for the sixteen-unit Stork Village Apartments. Mr. Jerry Robinson is Bayview CDC's Executive Director and the nonprofit's project manager for Bayview Legacy Residences. Mr. Robinson is assisting the nonprofit's board of directors to help Bayview CDC restore the organization's financial strength and bolster its cash flow position. Bayview CDC is currently in compliance with the terms of its agreements with the Housing Commission.

Prior to completion of Phase I, the Partnership would contract with a professional management company to provide property management services for the development. The project's architect is Mr. Carlos Rodriguez of Rodriguez+Simon Design Associates.

Conclusion

Approval of this loan would expedite financing of a development to provide seventy-two units of new rental housing affordable to low-income and very low-income families and remove a substandard trailer park that is a detriment to the Community. The staff recommendation for approval of this loan is based on the following assumptions:

Total Development Cost:	The estimated total development cost for Phase I of Bayview Legacy Residences is \$20,353,897.
Cost Per Unit:	The estimated Phase I total per-unit development cost, for seventy-two units, would be \$282,693. This includes relocation, demolition of the trailer park, a community room, and a manager's office. The cost per unit in public funds would be \$50,000.
Loan Amount:	The Housing Commission loan would be a maximum of \$3,600,000.

Appraised Value:	The appraised value of the trailer park “as-is” is \$2,260,000.
Security:	The Housing Commission loan would be secured by a second trust deed recorded against the property.
Loan-to-Value:	A calculation of loan-to-value would be subject to receipt of an as-built appraisal following completion of construction of Phase I.
Debt Service Ratio:	The debt service ratio following completion of Phase I is estimated at 1.43 in the first year. This ratio is high to allow for flexibility in construction financing. Following an award of nine percent tax credits, the developer could obtain a larger institutional loan to pay construction costs that will likely increase during the relocation period. This would result in a lower debt service ratio. If costs do not increase, the increased residual income would be used to make payments on the Housing Commission loan.
First Trust Deed:	A thirty-year, fully-amortized loan of \$3,516,250, at an estimated 7.25 percent interest, from SunAmerica.
Second Trust Deed:	A residual receipts loan of \$3,600,000, at three percent simple interest per year, from the San Diego Housing Commission.
Payment on the 2nd T. D.	Payments on a Housing Commission loan would commence following completion of Phase I lease-up.
Rent Restrictions:	A Housing Commission Declaration of Covenants, Conditions, and Restrictions, with a term of fifty-five years, would be recorded against the property. Rents for the trailer park are below HOME limits and will not exceed HOME limits prior to relocation of the residents. Rents for Bayview Legacy Residences I would be affordable to households with incomes at or below sixty percent of Area Median Income.
Occupancy Restrictions:	Occupancy would be restricted to families with household incomes of sixty percent or less of Area Median Income.

Recourse:	A Housing Commission loan would be a recourse loan to the developer until completion of tax credit financing.
Management Plan:	A Management Plan for Bayview Legacy residences will be submitted to Housing Commission staff for approval.
Operating Expense:	Bayview Legacy Residences I operating expenses are estimated to be \$23,094 per month (\$277,133 per year).
Pro Forma Assumptions:	Income increases for the new housing development are projected at 2.5 percent per year; expense increases are projected at 3.5 percent per year; vacancy is projected at 5 percent per year.

Risks and Mitigations

Risk of the proposed Housing Commission loan would be somewhat mitigated by the underwriting requirements of SunAmerica, the cure rights of the Housing Commission, the experience of KCW Consulting, and the experience Orange Housing Development Corporation. This loan would be contingent upon the Partnership securing the institutional loan and tax credit financing for the project.

Loans to tax credit developments become non-recourse upon the creation of a limited partnership for tax credit syndication because Internal Revenue Service regulations make the investment undesirable if structured otherwise. This would limit the Housing Commission's ability to recover funds loaned for permanent financing because the encumbrance would be only on the Phase I parcel and not the other assets of the developer. This risk is typically taken by the Housing Commission for tax credit-financed developments and is deemed mitigated by conservative underwriting assumptions.

ALTERNATIVE

The Housing Commission could decline to recommend this loan to the Housing Authority. Without a Housing Commission commitment, it is likely that the Partnership would not receive the necessary local governmental participation points to secure nine percent tax credit financing in 2004. Since tax credit allocations are competitive and the amount of the resource is variable, a delay in financing of this project could make it infeasible due to increased building costs or a decline in the amount of public financing available.

If the Partnership does not receive nine percent tax credit participation, its alternative would be to apply for bond financing with four percent tax credits. Under this scenario, financing of the project would be unlikely since this would produce a funding gap of approximately \$11,000,000.

The Partnership would be subject to dissolution, with the general partner assuming responsibility for a substandard trailer park and its attending financial and management difficulties.

Submitted by,

Approved by,

**Signature on File
With Original Document**

Cissy Fisher
Manager, Housing Finance & Development

Elizabeth C. Morris
Chief Executive Officer

- Attachments:
1. Location Map
 2. Development Timeline
 3. Development Summary
 4. Disclosure Statement*
 5. Appraisal Summary
 6. HC Development Form
 7. San Diego Housing Commission Income and Rent Calculations

*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, 2nd floor, 202 "C" Street.

Information: Dan Cady (619) 578-7594

ATTACHMENT 2

**BAYVIEW LEGACY RESIDENCES PHASE I
ESTIMATED DEVELOPMENT TIMELINE**

March 23, 2004	Loan to the Housing Authority for approval
July 2004	Redevelopment Agency Loan Closing
February 2005	Completion of Relocation
March 2005	Start of Phase I Construction
January 2006	Completion of Phase I Construction

ATTACHMENT 3

Development Summary

Name: Bayview Legacy Residences Phase I
Location: 325 54th Street
Description: Rental Housing for Families
Sponsor: Bayview Legacy Residences I, LP

Unit Affordability

Total # of units: 2BR: 18 3BR: 36 4BR: 18 Total: 72

Assisted units: 72

Restricted rents:

	<u>4BR</u>	<u>3BR</u>	<u>2BR</u>
Rents @ 30%AMI	\$536	\$487	\$425
Rents @ 45%AMI	\$834	\$754	\$656
Rents @ 50%AMI	\$934	\$843	\$733
Rents @ 60%AMI	\$1,132	\$1,021	\$887

Market rents: two-bedroom @ \$1,000
three-bedroom @ \$1,200
four-bedroom @ \$1,300

Development Cost

Total development cost:	\$20,353,897
HC development cost:	\$ 3,600,000
Total development cost per unit:	\$ 282,693
HC cost per unit (72 units):	\$ 50,000
HC subsidy per bedroom @ 216 br's:	\$ 16,667

Sources of Funds

First T.D. (SunAmerica)	\$ 3,516,250
Housing Commission Loan	\$ 3,600,000
9% Tax Credits	\$13,182,777
Developer Equity	\$ 54,870

Pro Forma Summary

Estimated net annual income:	\$ 412,943 (year 1)
Estimated annual expense:	\$ 277,133 (year 1)
Annual debt service:	\$ 287,844 (1.43 ratio in year 1)