



Good Neighbors

San Diego
Housing Commission

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REPORT

DATE ISSUED: May 28, 2004

ITEM 105

REPORT NO.: HCR04-046
For the Agenda of June 4, 2004

SUBJECT: Revision of Loan Terms for Renaissance at North Park Affordable Housing Development for Seniors (Council District 3)

SUMMARY

Issue: Should the San Diego Housing Commission recommend revision of its previously approved \$1,990,606 residual receipts loan to allow the City of San Diego Redevelopment Agency to receive a pro-rata share if it approves a new, subordinate \$1,200,000 loan?

Recommendation: Recommend that the Housing Authority approve the pro-rata sharing of residual receipts of the previously approved San Diego Housing Commission residual receipts loan as outlined in this report and authorize the Chief Executive Officer of the Housing Commission, or designee, to execute all documents necessary to facilitate this agreement for the proposed 96-unit Renaissance at North Park seniors housing development at 30th Street and El Cajon Boulevard in North Park.

Fiscal Impact: If this loan term is approved, the City of San Diego Redevelopment Agency will receive a 37.5% pro-rata share of the greater of (a) the minimum annual payment of \$10,793, or, (b) one-half (50%) of the annual residual receipts earned by the developer. The Housing Commission share will be reduced from 100% to 62.5% of fifty percent of the annual residual receipts.

Affordable Housing Impact: Development of this previously approved project will create 85 one-bedroom units and 11 two-bedroom units, of which two two-bedroom units would be resident manager units. Ninety-four of the units will provide affordability at 50% or less of the Area Median Income (AMI) for 55 years; specifically: to ten households at 30% or less of AMI (\$15,300 for a family of two), 38 households at 40% or less of AMI (\$20,400 for a family of two); 46 households at 50% or less of AMI (\$25,500 for a family of two).

Environmental Review: The City of San Diego has previously completed an environmental review pursuant to both the California Environmental Quality Act (CEQA) and the National



A state agency authorized by the City of San Diego

Environmental Policy Act (NEPA), issuing a combined Mitigated Negative Declaration/Finding of No Significant Impact (LDR No. 42-0892).

Community Planning Group Review: In April 2003, the Greater North Park Planning Committee unanimously approved this project.

Previous Action: On June 10, 2003, the Housing Authority of the City of San Diego unanimously approved a \$1,990,606 residual receipts loan to San Diego Interfaith Housing Corporation per the terms and conditions outlined in Housing Commission Report HCR03-041. (See Attachment 2)

Future Related Action: The recommendation will require Housing Authority approval.

BACKGROUND

North Park Interfaith Housing Corporation is a non-profit affiliate of San Diego Interfaith Housing Foundation (SDIHF). The Housing Authority of the City of San Diego approved a \$1,990,606 residual receipts loan in June 2003, to assist in constructing a 96-unit affordable senior apartment building. This loan was contingent upon receipt of a 9% state tax credit allocation which was awarded in October 2003.

The City's Redevelopment Agency has funded a \$1,164,365 acquisition and relocation grant for the senior project portion of a Disposition and Development Agreement with Carter Reese & Associates (CRA), master developer of a larger mixed-use project of which the 96-unit affordable housing project for seniors is one element. The applicant received additional financial assistance from a variety of public and private funding sources.

DISCUSSION

During the loan closing period, the developer was preparing to close the construction contract originally estimated using March 2003 construction values. The contractor, Sun Country Builders, in an effort to confirm original pricing, performed an updated estimation of construction materials and labor costs. It was at this point that the recent escalating values of such costs became known to the development team; Sun Country Builders has estimated that impact to be a cost increase of \$1,521,750.00.

Although the increase in prices is large, it is indicative of the increased costs in construction materials associated with production and transportation costs as well as global business events and activities that have particularly impacted the steel trade, wood and petroleum products production. These increases have been validated by current industry research and commentary

as well as independent analysis of the project budget. The Mc Graw Hill Construction ENR First Quarterly Cost Report issued March 22, 2004, stated "After more than a decade of relative price stability, contractors have been blind-sided by the largest price hikes for materials since the early 1970's."

The development team has scrutinized the project and, through value engineering and deferral of the developer fee, has reduced the amount of additional funds needed for the construction cost increases to \$1,200,000. The reduced scope of work and/or materials has been approved by all lenders and the City's Development Services Division.

The challenge became how to receive the additional financing to cover the \$1,200,000 cost increase. In order to address this situation and to fund the closing of the project, Carter Reese & Associates agreed to fund a \$200,000 tenant improvement bridge loan and Alliant Capital Ltd., the tax credit limited partner, provided a \$300,000 gap loan with the understanding of all parties that these loans would be paid at the closing of the proposed \$1,200,000 Redevelopment Agency loan. North Park Interfaith Housing Corporation agreed to place \$485,000 of the developer fee back into the project and consider it as a deferred developer fee.

The \$1,200,000 Redevelopment Agency loan is to be presented for consideration at the June 22, 2004 meeting of the Redevelopment Agency. If the Redevelopment Agency loan is approved, the developer will repay the Carter Reese & Associates \$200,000 loan and the Alliant Capital Ltd. \$300,000 gap loan upon loan closing. The outstanding funds will be applied to any construction cost overruns. If there are unspent funds that remain at the completion of construction, the funds would be released to the developer at the termination of any lien period or any additional construction-related covenant.

The total development budget is now \$19,526,035. The first position Citibank conventional mortgage loan is \$2,956,049. The San Diego Housing Commission \$1,990,606 loan is in second position. The Redevelopment Agency loan position will be behind the San Diego Housing Commission, in final position.

The Housing Commission loan terms are based on a 55-year residual receipts loan at the applicable Federal Funds rate (4.65% interest compounded annually), secured by a second trust deed against the property. Debt service on the Housing Commission loan is 50% of residual receipts. Payments will equal the greater of 50% of residual receipts or \$10,793, which is equal to half of the estimated residual receipts at year one. In the event the residual receipts are less than \$10,793, the payment to the Housing Commission will be satisfied by 100% of residual receipts.

The original assistance provided by the Redevelopment Agency was in the form of a \$1,164,365 grant. The Agency would like to receive some payment compensation for the additional \$1,200,000 now proposed for consideration. The agency is requesting to receive a pro-rata share

of the residual receipts. The proposed share would be a 37.5% pro-rata share of the greater of (a) the minimum annual payment of \$10,793, or, (b) a 37.5% share of one-half (50%) of the annual residual receipts earned by the developer. The San Diego Housing Commission share will be reduced from 100% to 62.5% of the above amounts.

Had the Redevelopment Agency loan been included in the original request for funding, it would have been customary for the Housing Commission to recommend that it share residual receipts with the Redevelopment Agency, as is now proposed.

Risks and Mitigation

In an effort to ensure the successful completion of the senior housing development and to avoid the loss of \$11,245,015 in tax credits, staff is bringing this request for a change in loan terms forward. The proposed new construction development will include 96 units for very low- and extremely low-income seniors that will add an under-provided unit type to the existing housing stock; the proposal addresses a "high priority" in the City's Consolidated Plan.

Regardless of the approval outcome of the Redevelopment Agency, the San Diego Housing Commission loan will remain in second position behind the primary lender.

ALTERNATIVES

Do not recommend approving the loan term revisions for the project. This would most likely result in the loss to the City of San Diego of \$11,245,015 in tax credits and an opportunity to increase the affordable housing supply by guaranteeing the affordability of 94 units for seniors at 50% or less of the area median income for a period of 55 years.

Submitted by,

Cissy Fisher
Housing Finance & Development Manager

**Signature on File
With Original Document**

Approved by,

Elizabeth C. Morris
Chief Executive Officer

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Attachments: 1. Project Development Timeline Housing Commission
 2. Report HCR03-041

Information: Carlos C. de Baca, (619) 578-7586

ATTACHMENT 1

DEVELOPMENT TIMELINE

**RENAISSANCE AT NORTH PARK RESIDENTIAL DEVELOPMENT
San Diego Interfaith Housing Corporation / Carter Reese & Associates**

SAN DIEGO HOUSING COMMISSION

Housing Authority Approval	June 10, 2003
Loan Closing Date	May 20, 2004
Construction Start	June 1, 2004
Housing Commission Consideration*	June 4, 2004
Housing Authority Consideration*	June 15, 2004
Estimated Construction Completion	December 1, 2005
Estimated Full Occupancy	May 1, 2006

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