



Good Neighbors

San Diego  
Housing Commission

- 1625 Newton Avenue
- San Diego, California 92113-1038
- 619/231 9400
- FAX: 619/544 9193

# REPORT

**DATE ISSUED:** November 10, 2004

**ITEM 103**

**REPORT NO.:** HCR04-94  
For the Agenda of November 19, 2004

**SUBJECT:** Proposed Loan and Final Authorization to Issue Multifamily Housing Revenue Bonds for the Hillside Gardens Apartments (Council District 7)

## SUMMARY

**Issue #1:** Should the Housing Commission recommend Housing Authority approval of a financing plan for the acquisition, rehabilitation, and preservation of 76 units of affordable housing located at 5802 University Avenue?

**Recommendation #1:** Recommend the Housing Authority approve a 55-year, 3% residual receipts loan secured by a second trust deed in the amount of up to \$5,000,000 in accordance with the terms and conditions as outlined in this report. The President and Chief Executive Officer would be authorized to take all actions necessary to effectuate this transaction.

**Recommendation #2:** Recommend the Housing Authority authorize the issuance of multifamily housing revenue bonds in an amount not to exceed \$39 million to finance the acquisition, rehabilitation, and preservation of 76 housing units for occupancy by very-low income households. The Executive Director of the Housing Authority or the Chief Operating Officer of the Housing Commission, or designee, would be authorized to execute all documents necessary to facilitate the bond financing.

### Certificate of Funding Availability:

Certificate No.:	FY 05-070
Amount:	\$5,000,000
Revenue Source:	HOME/Other
Division:	Housing Finance and Development
Line Item:	Loans and Grants

**Fiscal Impact:** The issuance and sale of bonds would not financially obligate the City, the Housing Authority or the Housing Commission because security for the repayment of the bonds will be limited to specific private revenue sources. All costs of the financing,



including compensation for staff efforts in preparing the bonds, would be borne by the developer. The Housing Commission's origination fee as well as the annual administrative fee under the financing would be up to \$85,000 (0.23 percent of the bond amount).

**HOME Program Compliance:** An acquisition-rehabilitation loan is an eligible activity under the HOME Program. The proposed rents are below HOME guidelines.

**Affordable Housing Impact:** The current affordability restrictions on the project, set to expire in 2005, restrict 25% (95) of the apartments at 65% of the area median income (AMI) (\$44,550 for a family of four) with the remaining units rented at fair market value. After rehabilitation, the developer will restrict 20% (76) of the apartments at 50% AMI (\$34,250 for a family of four). The affordability restrictions will remain in place for a minimum of 55 years.

**Environmental Review:** This project has been reviewed by the City for compliance with the California Environmental Quality Act (CEQA) and the National Environmental Policy Act (NEPA) and determined to be exempt under CEQA and exempt under NEPA, pursuant to 24 CFR 58.35(a) (LDR No. 04-0034).

**Previous Related Actions:** On November 14, 2003, HCR03-100, the Housing Commission approved the project's financing team (Bond Counsel and Financial Advisor) and recommended that the Housing Authority approve an inducement resolution and the City Council approve a TEFRA resolution for the project. On November 18, 2003, the Housing Authority approved an inducement resolution declaring the Housing Authority's "Official Intent" to issue tax-exempt bonds. On July 27, 2004, the City Council approved a TEFRA resolution for the project. On October 26, 2004, the Loan Committee voted to recommend Housing Commission approval of the loan.

**Future Related Action(s):** Subject to approval by the Housing Commission, the project will be presented to the Housing Authority for approval on November 23, 2004.

## **BACKGROUND**

Swift Real Estate Partners, LLC acquired the Hillside Gardens Apartments on September 23, 2003, and submitted an application for funding under the Housing Commission's current Notice of Funding Availability.

On November 15, 1985, the Housing Authority originally issued bonds for the Hillside Gardens Apartments. Under the 1985 regulatory agreement 20% of the units were restricted at 80% AMI (\$54,800 for a family of four). On April 12, 1995, the Housing Authority refunded the original bonds with the issuance of \$13,670,000 in multifamily housing revenue bonds. The regulatory agreement associated with the 1995 bonds, which expires in August of 2005, restricted 25% of the units at 65% AMI (\$44,550 for a family of four). The Housing Authority, on behalf of the developer, submitted an application for a bond allocation to the California Debt Limit Allocation Committee (CDLAC) for the project. Housing

For the Agenda of November 19, 2004

Proposed Loan and Multifamily Housing Revenue Bonds for the Hillside Gardens Apartments

Page 3

Commission staff is confident that the project will receive a bond allocation at the CDLAC meeting scheduled for December 15, 2004. Contingent upon receiving an allocation, the anticipated bond issuance date is December 20, 2004.

A general description of the Housing Commission's Multifamily Bond Program and actions that must be taken by the Housing Authority and by the City Council to initiate and finalize the proposed financing are described in Attachment 1.

## **DISCUSSION**

### The Borrower

The borrower for the project will be Swift Real Estate Partners, LLC. The managing partner and developer of the project will be KOR Realty Group, LLC (KOR). KOR has owned and operated apartment properties for over 13 years with a portfolio totaling more than 14,000 units. KOR owns and/or controls over 3,700 units in California, including the 104-unit Parkridge Apartments in San Diego. KOR has completed several major rehabilitation projects and is currently developing two new construction apartment projects. The principles of KOR include Bradford Korzen, Jeffrey Smith, and Gregory F. Schem. The developer's Statement for Public Disclosure is included as Attachment 2. Audited financials are included as Attachment 3.

### The Project

The Hillside Gardens Apartments are located north of University Avenue between 58<sup>th</sup> Street and College Avenue. The surrounding area is characterized by commercial uses along University Avenue with a combination of single family and multifamily residences. Directly across University Avenue from Hillside Gardens is the University Square retail development, which includes Food 4 Less, Hometown Buffet, and a movie theater among its many tenants. The project also provides convenient access to the Salvation Army Kroc Center and San Diego State University. The location map is included as Attachment 4.

The project currently consists of 380 total units with 48 one-bedroom units, 312 two-bedroom units, and 20 two-bedroom duplexes. Current amenities include two swimming pools, a clubhouse, garages, and laundry rooms. The rehabilitation will update the units, improve the clubhouse, and extend the useful life of the development. The current rehabilitation budget is approximately \$4.4 million.

The current affordable restrictions on the project will expire in August of 2005. The acquisition and rehabilitation of the project will ensure that 76 units are restricted at 50% AMI (\$34,250 for a family of four) for a minimum of 55 years. The remaining 304 units will be rented at fair market value. In addition, all 380 units cannot be converted to condominiums for the 55-year term of the regulatory agreement.

Rent and Income restrictions for the project are outlined in the chart below:

Type	Square Footage	AMI	Number of Units	Average Current Rents	Restricted Rent (Including Utility Allow)	Market Rate	Savings per unit
1 Bed, 1 Bath	650	50%	10	N/A	\$642	\$929	\$287
1 Bed, 1 Bath	650	Market	38	\$894	\$929	\$929	N/A
2 Bed, 1 Bath	738	50%	60	N/A	\$771	\$988	\$217
2 Bed, 1 Bath	738	Market	240	\$940	\$988	\$988	N/A
2 Bed, 2 Bath	950	50%	6	N/A	\$771	\$1,141	\$370
2 Bed, 2 Bath	950	Market	26	\$1,089	\$1,141	\$1,141	N/A
<b>Total:</b>			<b>380</b>				<b>\$18,110</b>

An appraisal was completed in conjunction with the acquisition of the property. The “as is” market value of the property as of July 10, 2003 was \$35,150,000. Based on appreciation, rent increases due to rehabilitation, and more advantageous financing, Berkshire Mortgage believes that the “as stabilized” value of the property after rehabilitation will be approximately \$45,000,000. An “as-stabilized” appraisal will be required prior to funding.

#### The Funding Request

The total development cost of the project is approximately \$43,201,519 (\$113,688/unit). The proposed financing sources include a total of approximately \$38,000,000 in multifamily housing revenue bonds, a Housing Commission loan in the amount of \$5,000,000, and developer equity of approximately \$200,000.

The developer acquired the property for \$34,700,000. The developer will spend an additional \$4.4 million to rehabilitate the property (approximately \$11,600 per unit). Attachment 5 is the cost estimate for the project. Sources and uses of funds are shown in Exhibit A of Attachment 6.

Staff is working with the developer to analyze the extent to which relocation payments may be required for the project. Any relocation expenses that are required will be paid for with deferred developer fee or developer equity. Bond counsel believes that a phase-in period of up to a year could be established for tenants with rents equal to 65% AMI (\$44,550 for a family of four). During the phase-in period, 65% AMI tenants would qualify as 50% AMI (\$34,250 for a family of four) tenants for the purposes of the regulatory restrictions. After the phase-in period, all tenants would need to be income eligible at 50% AMI.

The Housing Commission loan proceeds will be utilized for acquisition and rehabilitation. Funding would be contingent upon the issuance of bonds for the project. The approval would run through calendar year 2005 to allow for the bonds to be structured and issued. Any extension of the commitment would be at the discretion of the Housing Commission’s Chief Executive Officer.

The Housing Commission loan will be a 55-year residual receipts loan at 3% interest secured by a second trust deed against the property. Debt service on the Housing Commission loan will be the greater of 50% of residual receipts or \$136,831, which is equal to half of the estimated residual receipts at year one. In the event residual receipts are less than \$136,831, the payment to the Housing Commission will be satisfied by 100% of residual receipts.

### The Financial Plan

Total Development Cost:	The total development cost is \$43,201,519, which includes the acquisition price of \$34,700,000 and other development costs.
Appraised Value:	The property was appraised at \$35,150,000 in 2003. An as-stabilized appraisal will be obtained prior to funding. The after rehabilitation value is estimated at \$45 million.
Security:	The Commission's loan (maximum of \$5,000,000 or \$ 65,789 per restricted unit) will be subordinate to the bonds and secured by a second trust deed against the property.
Loan-to-Value	The stabilized loan-to-value ratio is 96%.
Debt Service Ratio:	Debt service on the first position permanent loan is estimated to be 1.20 at year one.
First Trust Deed	Fannie Mae, the credit enhancer to the multifamily housing bonds, will provide a first trust deed of approximately \$38 million, with a term of 30 years and an interest rate estimated to be 3.93%.
Second Trust Deed	Housing Commission loan, 3% percent simple interest, with a 55-year term.
Payments on the Housing Commission Loan	Annual debt service payments will equal the greater of \$136,831 or 50% of residual receipts. In the event residual receipts are less than \$136,831, the payment to the Housing Commission will be satisfied by 100% of residual receipts.
Rent Restrictions:	A Declaration of Covenants and Restrictions with a 55-year term will be recorded against the property. 76 units will be affordable to households earning

no more than 50% AMI. The remaining units will be rented at fair market value.

Occupancy Restrictions:

Occupancy of 76 units will be restricted to households earning no more than 50% AMI.

Recourse:

The loan will be a recourse loan until the creation of the limited partnership for tax credit syndication.

Management Plan:

A Management Plan is currently under review.

Operating Expense:

Operating expenses are projected at \$4,226 per unit per year (\$352 per unit per month).

Pro Forma Assumptions:

Income increase is projected at 2.5% per year; expense increase is projected at 3.5% per year, and vacancy is projected at 5.0% per year.

Bond Structure

The Housing Authority submitted an application for up to \$27 million in multifamily housing revenue bonds (the New Bonds) from CDLAC for the Hillside Gardens Apartments. Proceeds from the New Bonds will be combined with proceeds from the refinancing of \$11,915,000 in bonds currently outstanding as part of the 1995 issuance (the Existing Bonds) to finance the acquisition and rehabilitation of the project.

Tax-exempt bond proceeds cannot be used to pay off bonds not subject to redemption. Since the Existing Bonds are not subject to redemption until May 1, 2005, the Authority intends to issue a sufficient amount of taxable bonds to fully retire the Existing Bonds plus accumulated interest. Within 60 days of May 1, 2005, it is permissible to convert the taxable bonds to tax-exempt and pay off the Existing Bonds.

The approximately \$38 million in total bonds issued for the project will be amortized over a 30-year period and will be credit enhanced by Fannie Mae. It is expected that the bonds will be rated "AAA."

Risks and Mitigation

The majority of the funding for the project is from multifamily housing revenue bonds. The Housing Commission's loan is contingent upon the issuance of bonds in an amount sufficient to complete the rehabilitation of the project. Prior to stabilization, the total indebtedness of the project will exceed the value of the property. However, after rehabilitation the loan-to-value ratio will be reduced substantially.

The proposed project will preserve and restrict 76 units for very-low income households. The proposed loan will also rehabilitate 380 units of housing in a convenient, desirable location. The Housing Commission will earn a bond administration fee of approximately \$85,000 and will receive a minimum payment on the loan. The large number of market rate units will provide cash flow to cover 100% of the debt service on the loan. For these reasons, staff recommends funding this project under the terms and conditions as outlined in this report.

## ALTERNATIVES

Do not recommend funding the project. This would most likely result in the loss of affordable housing in the project. If the Commission declined to fund this loan, the developer could convert the project to market rate rentals in August 2005 when the current regulatory agreement expires and the existing 95 units of affordable housing would be lost.

Respectfully submitted,

**Signature on File  
With Original Document** Approved by,

Cissy Fisher  
Director of Housing Finance & Development

Elizabeth C. Morris  
President & Chief Executive Officer

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- Attachments:
1. Multifamily Bond Program Summary
  2. Developer's Disclosure Statement\*
  3. Developer's Financial Statement\*
  4. Location Map
  5. Rehabilitation Cost Estimate
  6. Financial Advisor's Letter
  7. Housing Commission Project Pro-forma

\* Distribution of the attachment is limited. A copy is available for review at the Housing Commission office located at 1625 Newton Avenue.

# ATTACHMENT 1

## HOUSING COMMISSION'S MULTIFAMILY BOND PROGRAM

### General Description

The Housing Commission's multifamily bond program provides below market financing (based on tax exemption of bond interest) for developers willing to set aside a portion of the units in their projects as affordable housing. The actual issuer of these bonds is the Housing Authority. At the present time, over \$540 million in outstanding bonds provides permanent financing for more than 9,200 multifamily rental units in the City, of which 4,316 units are restricted at various levels of affordability.

The Housing Commission's policy for the issuance of bonds requires a minimum "A" rating, which is typically achieved through the provision of an outside credit enhancement by participating financial institutions that underwrite the project loans and guarantee the repayment of bonds.

Actions that must be taken by the Housing Authority and by the City Council to initiate bond financing include the following:

#### 1. Bond Inducement

The adoption of an "inducement resolution" is an initial step required by the Internal Revenue Service to initiate a possible new-money bond issuance. It does not represent any commitment by the Housing Commission, Housing Authority or the applicant to proceed with the financing. Rather, it establishes, through public record, the date from which project costs incurred may be determined to be reimbursable from bond proceeds. Generally, the bond inducement amount is higher than the estimated bond amount to reflect a 10-15 percent contingency. The adoption also authorizes staff to work with the selected financing team to perform a due diligence process to determine the feasibility of the financing, the level of affordability of the set-aside units and structure a resulting proposal for the issuance of bonds.

#### 2. TEFRA Hearing and Approval

In order for interest on the bonds to be tax-exempt and in accordance with the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982, Section 147(f) of the Internal Revenue Code of 1986, the issuance of bonds must be approved by representatives of the governmental unit with jurisdiction over the area in which the project is located after a public hearing for which a reasonable public notice was given. Therefore, federal regulations require that the issuance of bonds by the Housing Authority be approved by the City Council, as the elected legislative body of the City. A notice of public hearing to be held by the City Council with respect to the proposed issuance of bonds will be published in the San Diego Daily Transcript at least fourteen days prior to the scheduled meeting. The

purpose of such public hearing is to provide an opportunity for interested persons to provide their views on the proposed bond issuance and on the nature and location of the project. Please note that the City Council is approving the issuance of bonds only for the purposes of the Internal Revenue Code. The City is not financially or legally liable for the bonds or the project. The purpose of the TEFRA hearing and the approval of the City Council is to ensure that projects making use of tax-exempt financing are meeting appropriate governmental purposes and providing reasonable public benefits.

### 3. Bond Allocation

The issuance of bonds for projects owned by private developers (i.e., projects owned by private developers or by nonprofit sponsors with for profit investor participation - "private activity bonds") requires an allocation of a bond issuing authority from the State of California. In order to apply for the bond allocation, an application approved by the Housing Authority and supported by an adopted inducement resolution and by proof of credit enhancement (or bond rating) must be filed with the California Debt Limit Allocation Committee (CDLAC). In addition, evidence of a TEFRA hearing and approval must be submitted prior to the CDLAC meeting.

### 4. Final Bond Approval

The Housing Authority retains absolute discretion over the issuance of bonds through adoption of a final resolution authorizing the issuance. Initially, the information about the proposed tax-exempt financing of the project is preliminary. If the inducement resolutions are approved, a due diligence process conducted by staff and financing team members will generate additional information and analysis. Prior to final consideration of the proposed bond issuance by the Housing Authority, the project will have to comply with all the program's financing and affordability requirements, and undergo all required planning procedures/reviews by local planning groups, etc. The final resolution approves the issuance of bonds by the Housing Authority and authorizes the execution of all necessary bond documents.

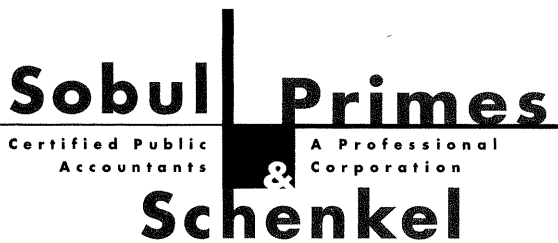
**KOR REALTY GROUP, LLC**

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**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**with**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**



Stephen S. Sobul, C.P.A.  
David M. Primes, C.P.A.  
Richard J. Schenkel, C.P.A.  
Christopher D. Morris, C.P.A.  
Steven H. Levitt, C.P.A.  
Jeffrey B. Cameron, C.P.A.

To the Members  
Kor Realty Group, LLC

We have reviewed the accompanying balance sheet of Kor Realty Group, LLC, as of December 31, 2003, and the related statements of operations and members' deficit, and cash flows for the year ended December 31, 2003 in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Kor Realty Group, LLC.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit, in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

A handwritten signature in black ink that reads 'Sobul Primes &amp; Schenkel'.

June 7, 2004

Member: American Institute of Certified Public Accountants, California Society of Certified Public Accountants  
and CPA Associates International with Offices in Principal U.S. and International Cities

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## KOR REALTY GROUP, LLC

## BALANCE SHEET

DECEMBER 31, 2003

ASSETSCurrent Assets

Cash	\$	10,744
Due from related parties		1,024,268
Prepaid expenses and other current assets		<u>140,943</u>

TOTAL CURRENT ASSETS \$ 1,175,955

Property and Equipment

221,960

Other Assets

Due from related parties		1,943,810
Security deposits		<u>41,244</u>

TOTAL OTHER ASSETS 1,985,054

TOTAL ASSETS \$ 3,382,969

LIABILITIES AND MEMBERS' DEFICITCurrent Liabilities

Accounts payable - trade		219,934
Due to related parties		291,772
Lines of credit - banks		2,596,750
Accrued expenses and other current liabilities		<u>211,648</u>

TOTAL CURRENT LIABILITIES \$ 3,320,104

Long-term Liabilities

Due to related parties 105,943

Members' Deficit(43,078)

TOTAL LIABILITIES AND MEMBERS' DEFICIT \$ 3,382,969

See Accountants' Review Report and Accompanying Notes

KOR REALTY GROUP, LLC

STATEMENTS OF OPERATIONS AND MEMBERS' DEFICIT

YEAR ENDED DECEMBER 31, 2003

Revenues

Acquisitions	\$	960,286
Hotel		1,428,552
Management		1,503,633
Structure		<u>1,258,879</u>

TOTAL REVENUES \$ 5,151,350

Operating Expenses

Acquisitions	983,751
Hotel	1,620,215
Management	1,439,438
Structure	<u>1,266,866</u>

TOTAL OPERATING EXPENSES 5,310,270

OPERATING LOSS (158,920)

Other Income

142,949

NET LOSS (15,971)

Members' deficit, beginning of year (27,107)

MEMBERS' DEFICIT, END OF YEAR \$ (43,078)

See Accountants' Review Report and Accompanying Notes

KOR REALTY GROUP, LLC

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2003

Cash Flows From Operating Activities

Net loss	\$ (15,971)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation and amortization	67,510

Changes In

Due from related parties, net	(872,971)
Prepaid expenses and other current assets	(117,750)
Accounts payable - trade	(2,191)
Accrued expenses and other current liabilities	<u>(45,401)</u>

NET CASH USED BY OPERATING ACTIVITIES \$ (986,774)

Cash Flows From Investing Activities

Purchases of property and equipment	<u>(64,140)</u>
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Cash Flows From Financing Activities

Proceeds from lines of credit	1,344,250
Repayments on lines of credit	<u>(555,000)</u>

NET CASH PROVIDED BY FINANCING ACTIVITIES 789,250

NET DECREASE IN CASH (261,664)

Cash at beginning of year 272,408

CASH AT END OF YEAR \$ 10,744

Supplementary Disclosure of Cash Flow Information

Cash paid during the year for:	
Interest	\$ 115,970

See Accountants' Review Report and Accompanying Notes

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003

NOTE 1- BUSINESS ACTIVITY

Kor Realty Group, LLC (“the company” or “Kor”) is a California Limited Liability Company established March 1, 2002. The company develops, operates, and manages both hotels and apartment buildings primarily located in Southern California. In connection with management services provided, it serves as a common paymaster for all non-union employees of the hotel and apartment operations. These and other costs are fully reimbursed by the related entities. Members of Kor have ownership interests in these hotels and apartment buildings (Note 6).

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue Recognition

The company recognizes revenue from the hotels based on a percentage of room revenues, and from the apartment buildings based on a percentage of collected rents. Additionally, the company earns revenues for developing new properties, coordinating the refinancing of existing property loans, and performing various property management functions. In any event, revenue is recognized when earned.

(b) Depreciation and Amortization

Depreciation and amortization are provided by straight-line and accelerated methods at rates based on the estimated useful lives of the respective assets. Upon the sale or retirement of such assets, the related cost and accumulated depreciation and amortization are eliminated from the accounts and gains or losses are reflected in income. Repairs and maintenance expenditures, not anticipated to extend asset lives, are charged to income as incurred.

(c) Income Taxes

The company is treated as a partnership for federal income tax purposes. Consequently, federal income taxes are not payable by, or provided for, the company. Members are taxed individually on their shares of the company’s earnings. The company’s net income or loss is allocated among the members in accordance with the regulations of the company.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)(d) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3- PROPERTY AND EQUIPMENT

Property and equipment is stated at cost and is summarized as follows:

Computer equipment	\$ 166,924
Office equipment	52,891
Leasehold improvements	<u>248,470</u>
	468,285
Less: accumulated depreciation and amortization	<u>(246,325)</u>
NET PROPERTY AND EQUIPMENT	<u>\$ 221,960</u>

Depreciation and amortization expense for the year ended December 31, 2003 was \$67,510.

NOTE 4- LINES OF CREDIT - BANKS

- (a) The company has an unsecured \$2,000,000 line of credit with a bank that expires in February, 2004 (renewed subsequent to December 31, 2003 to expire in May, 2005). Interest is due monthly at the bank's reference rate plus 1.0 percent (5.0% at December 31, 2003). A member of Kor has personally guaranteed this loan. The loan agreement contains an aggregate debt coverage ratio requirement for both the company and the member. At December 31, 2003, the company has breached this covenant. The bank has not waived the covenant violation and retains all rights (as defined in the loan agreement) in connection with the violation. \$1,996,750

KOR REALTY GROUP, LLC

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003

NOTE 4- LINES OF CREDIT - BANKS (continued)

- (b) The company has an unsecured \$1,000,000 line of credit with a bank that expires in April, 2004 (renewed subsequent to December 31, 2003 to expire in April 2005). Interest is due monthly at the bank's prime rate plus .5% (4.5% at December 31, 2003). A member of Kor has personally guaranteed this loan.
- |  |                    |
|--|--------------------|
|  | <u>600,000</u>     |
|  | <u>\$2,596,750</u> |

Interest expense for the year ended December 31, 2003 for the above loans was \$115,970.

NOTE 5- COMMITMENTS AND CONTINGENCIES

(a) Office Facilities

The company is committed for minimum rentals for the use of office facilities under a noncancellable sublease. The minimum rentals include the company's pro-rata share of the sublessor's direct expenses payable by sublessor under a master lease. The rental amount will be adjusted every January 1 commencing in 2003. The sublease expires September 30, 2005. For the year ended December 31, 2003 total rent expense for the office facilities was \$166,063.

Minimum annual payments under the lease are as follows:

<u>Years ending December 31,</u>	<u>Amount</u>
2004	\$ 195,467
2005	<u>158,035</u>
TOTAL	<u>\$ 353,502</u>

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003

NOTE 5- COMMITMENTS AND CONTINGENCIES (continued)(b) Letter of Credit

As of December 31, 2003, the company has an outstanding letter of credit for \$2,000,000 in connection with the company's workers' compensation policy. This letter of credit expires in April, 2005 and contains a clause for automatic renewal subject to certain financial statement covenants (as defined).

NOTE 6- RELATED PARTY TRANSACTIONS

Members of Kor have ownership interests in properties which are managed by Kor. The following is a summary of related party transactions at December 31, 2003 and for the year then ended:

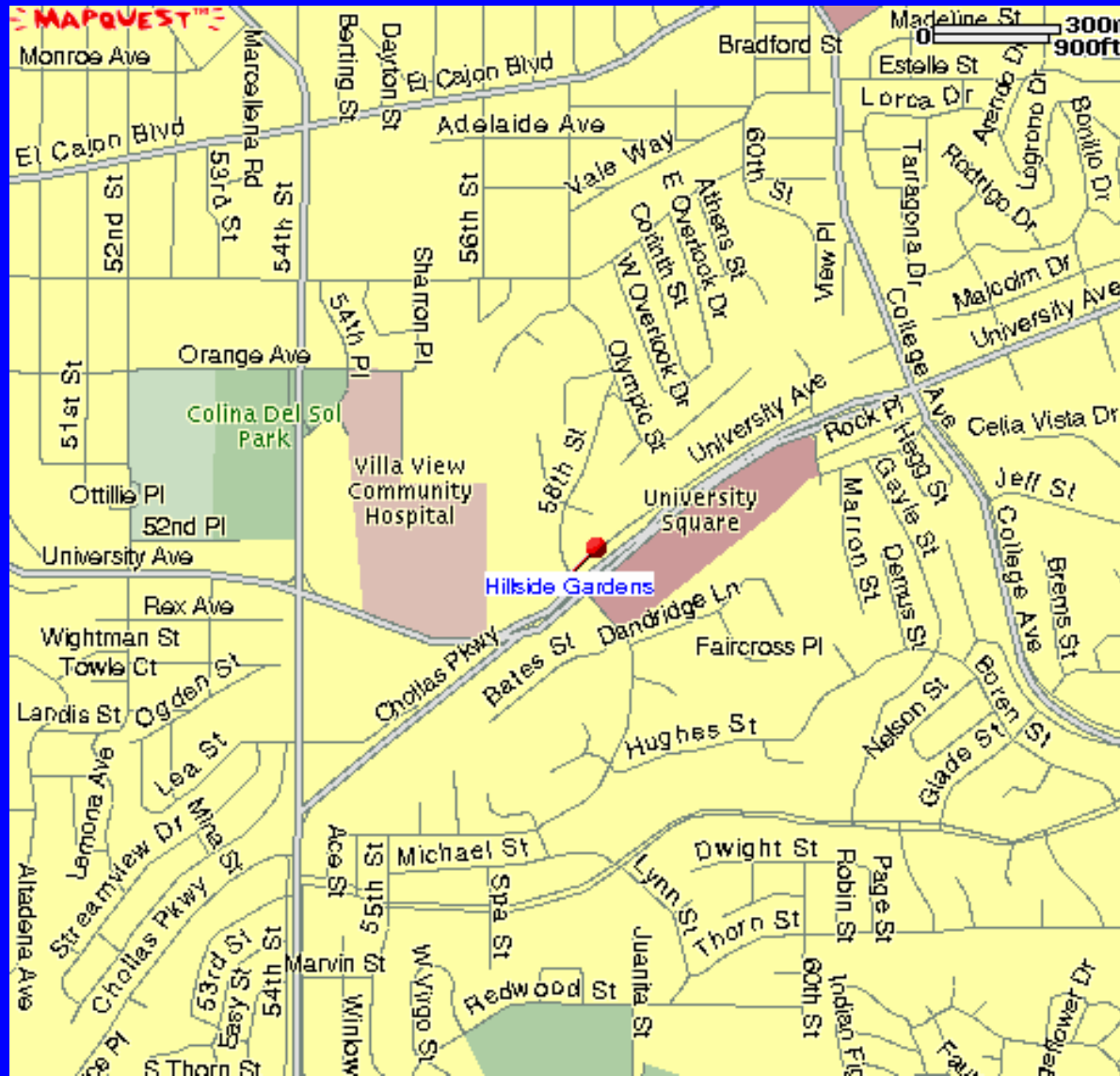
	Receivable Balance at <u>December 31, 2003</u>	Payable Balance at <u>December 31, 2003</u>	Revenues Earned For the Year Ended <u>December 31, 2003</u>
Apartments	\$ 934,512	\$ 123,693	\$ 3,508,798
Hotels	1,969,389	267,022	1,642,552
Members	<u>64,177</u>	<u>7,000</u>	<u>0</u>
	<u>\$ 2,968,078</u>	<u>\$ 397,715</u>	<u>\$ 5,151,350</u>

NOTE 7- 401(K) PLAN

The company has a 401(k) plan that covers substantially all employees. Under the plan, participants may defer all or a portion of their annual compensation, but not to exceed the maximum amount as determined by the Internal Revenue Service. Participants are fully vested in their contributions, and vest in the matching discretionary contributions, 20% each year after one year of service and are fully vested after five years of service. For the year ended December 31, 2003, the company made no matching or discretionary contributions.

# Hillside Gardens Apartments

## Council District: 7



**5802 University Avenue**

TO: Peter Armstrong  
FROM: Flavian Geis and Rick Vincent  
DATE: April 21, 2004  
SUBJECT: Hillside Garden Apartments

Rehabilitation staff performed an inspection of the subject property on April 8, 2004. A total of 36 unit interiors (10%) were inspected as well as the exterior of the property in order to estimate the rehabilitation work and cost.

There are 49 wood frame and stucco 2 and 3 story apartment buildings developed on an approximate 9 acre site located at the corner of University Avenue and 58<sup>th</sup> Street. The project was constructed in two phases; 300 units were built in phase I in approximately 1955 and 80, all electric, units were built in phase II in approximately 1986. The composition of the 380 units is: 42- 1BR 1BA, 38- 2BR-2BA, 300- 2BR-1BA. There are 12 laundries, 1 leasing office, 1 club house, 1 gym, 2 swimming pools and 8 garage buildings for a total of 271 garages (20 of which are in the duplex units). The ten duplex buildings (20 Units) will be a separate for sale rental project and therefore not included in this estimate. It appears that the units and grounds are very well maintained. Currently there are 34 vacancies at the project.

An inspection for lead based paint was conducted by Allstate Environmental in February, 2004 and for asbestos by Scott M. Zook in July, 2003. In both cases, the project tested negative for both lead based paint and asbestos.

Costs associated with unforeseeable building/zoning department requirements are not included in the estimate along with other soft costs such as engineering reports, architectural/design and construction insurance.

The rehabilitation work is based upon a 15 year standard and the cost estimate is divided into three separate categories: 1) Rehabilitation work that requires immediate attention 2) Rehabilitation work that could be delayed for up to 5 years 3) Rehabilitation work that could be deferred up to 15 years. The estimated rehabilitation cost is based upon current material cost and Federal Prevailing Wage labor rates. Categories 2 and 3 are not adjusted for inflation and therefore delaying the work will very likely increase the overall cost of the project.

**Category 1 (Work required immediately)**

Garage Roofing (8)	\$113,438
Roof Flashing/Drip Edges Allowance	4,000
Utility Shed Roof Replacement/Repairs	4,000
Seamless Gutters/Downspouts Allowance	15,500
Tree Removal(25)	13,750
Tree Trimming Allowance	20,000
Landscaping/Irrigation Allowance	10,000
Erosion Control Allowance	10,000
Parking Lot Repairs/Reseal Allowance	25,000
Repair Concrete Curbs Allowance	5,000
New Security Lighting	16,000
Repair and Paint All Pool Fencing	3,500
Individual Building Allowance (for replacement of dry-rot trim board, stucco repairs, scrape and paint any peeling paint, stair landing repairs, and stair railing paint)	94,000
Drywall in 80 Balcony Storage Rooms	15,000
New Water Heater Enclosure Doors (7)	8,400
Sidewalk Repairs Allowance	4,000
ADA Accessible Ramp to Leasing Office	5,000
Retaining Wall Repairs Allowance	10,000
Window Repairs Allowance	10,000
Cylindrical Locksets (300)	45,000
Termite Inspection and Repairs	4,000
New Carpet (50)	75,000
Shampoo Carpet (70)	24,500
New Floor Vinyl (50)	37,500
Interior Paint (70)	87,000
Kitchen Cabinet Repair Allowance	10,000
Kitchen Countertop Allowance	4,000
Water Heater Enclosure Repairs (100)	25,000
New Water Heater (50)	22,500
Water Heater Repairs Allowance	10,000
New Range (50)	25,000
New Refer (70)	49,000
New Dishwasher (10)	5,000
New Wall Furnaces (30)	30,000
New Hollow Core Passage Doors (25)	8,750

1985 Balcony Deck Repair Allowance	3,000
Miscellaneous Plumbing Repairs Allowance	25,000
Fungicide Treatment at 300 Bathrooms	45,000
New Drywall at 225 Bathroom Ceilings	78,750
New Bath and Kitchen Exhaust Fans/Air Ducts (300)	271,500
Tub Refinishing (120)	42,000
New Tub Surround (50)	25,000
Hardwire Smoke Detector Replacement (80)	<u>4,000</u>
Subtotal	1,343,088
10% Contingency	<u>134,308</u>
Total	1,477,396

**Category 2 (These items may be deferred 2-5 years)**

Parking Lot Repairs/Reseal	25,000
Repair Concrete Driveway Aprons	15,000
Retaining Walls Repairs Allowance	10,000
Repair Concrete Planter Walls Allowance	27,500
Sidewalk Repairs	14,000
Pool Repairs	10,000
Repair and Paint All Pool Fencing	2,000
Repair and Paint Trash Enclosure Fencing	6,000
Landscaping and Irrigation Allowance	30,000
Tree Removal Allowance	20,000
New Shingle Roofing at 7 "1985" Apartment Buildings	84,000
New Torch Down Roofing at 15 Apartment Buildings	240,000
New Torch Down Roofing at Clubhouse and Leasing Center	10,000
Exterior Painting of Stucco All Buildings	585,000
Paint All Exterior Trim	195,000
Repair 1985 Balcony Decks Allowance	12,000
Repair/Replace Courtyard Building Pedestrian Deck Surfaces	11,000
Stair Rail Repairs to all Original Stairs	7,000
Repair/Replace Hollow Core Metal Entry Doors Allowance	15,000

Recaulk/Repair Windows Allowance	10,000
New Carpet and Pad (76 Units Annually)	256,000
Make Ready Repairs (75 Units Annually)	380,000
New Floor Vinyl (38 Units Annually)	114,000
New Refrigerators (30 Units Annually)	84,000
New Ranges (30 Units Annually)	60,000
New Wall Heaters (30 Units Annually)	120,000
New Central Water Heaters (7)	24,500
New Water Heaters (Individual-60 Annually)	108,000
Miscellaneous Plumbing Repairs Allowance	100,000
Smoke Detectors (100)	5,000
Hollow Core Passage Doors (25)	8,750
Replace fire Extinguishers and Damaged Cabinets Allowance	<u>35,000</u>
Total	2,623,750

**Category 3 (Rehabilitation work that could be delayed up to 15 years)**

Install new Automatic Seismic Actuated Gas Shut Off Valves (50)	95,000
New Torch Down Roofing at 14 Apartment Buildings	224,000

**SUMMARY:**

Full rehabilitation of the project at this time is estimated at \$4,429,646; \$2,623,750 of this cost (Category 2) could be delayed 2-5 years and possibly be financed with the project's operating reserve fund and Category 3 may be deferred up to 15 years.