



REPORT

DATE ISSUED: May 30, 2003

ITEM 101

REPORT NO.: HCR03-041
For the Agenda of June 6, 2003

SUBJECT: Proposed Loan to North Park Interfaith Housing Corporation for Renaissance at North Park Affordable Housing Development for Seniors (Council District 3)

SUMMARY

Issue: Should the Housing Commission recommend approval of a loan of up to \$1,990,606 to North Park Interfaith Housing Corporation for the acquisition and construction of the proposed 96-unit Renaissance at North Park seniors housing development at 30th Street and El Cajon Boulevard in the North Park community of Council District 3?

Recommendation: That the Housing Commission approve a 55- year, deferred loan to North Park Interfaith Housing Corporation for Renaissance at North Park, secured by a second trust deed in the amount of up to \$1,990,606 in accordance with the additional terms and conditions as outlined in this report, including the receipt of nine-percent tax credit financing for this development. If the developer is awarded the tax credits, the interest rate on the loan will be based on the applicable Federal Funds Rate at the time of loan closing.

Fiscal Impact: If this project receives an allocation of at least \$11,844,811 in federal tax credit financing during the fiscal year 2004, an auditor's certificate committing \$1,990,606 for the primary loan will be issued, using HOME and Housing Trust Funds.

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

Affordable Housing Impact: Development of this 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); 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).



The restricted units will be affordable for a term of 55-years, with rents as follow:

Household Affordability	Number of Units	Unit Type	Restricted Rent (net of utility allowance)	Market Rent ¹ (net of utility allowance)
30%	10	1 br	\$355	\$747
40%	32	1 br	\$450	\$747
40%	6	2 br	\$538	\$864
50%	43	1 br	\$570	\$747
50%	3	2 br	\$678	\$864
Mgr's Units	2	2 br	N.A.	N.A.

1. Based on Froboese appraisal, April 2003, showing \$775 for one-bedroom and \$900 (estimated) for two-bedroom, one-bathroom units.

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

Future Related Action: The recommended funding exceeds the Housing Commission's approval limit (\$250,000) and will require Housing Authority approval.

BACKGROUND

North Park Interfaith Housing Corporation is a non-profit affiliate of San Diego Interfaith Housing Foundation (SDIHF). San Diego Interfaith Housing Foundation submitted an application for funding in response to the current Housing Commission Notice of Funding Availability. The City's Redevelopment Agency approved a \$819,650 acquisition and relocation grant for the project in August 2002 as part 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; SDIHF will develop the housing in partnership with CRA. The applicant is applying for financial assistance from a variety of additional funding sources as described further in this report.

The other uses that will be developed on the overall site include 8,748 square feet of ground-floor commercial space, 24 affordable for-sale townhomes, 14 market-rate for-sale "lane homes," and a relocated community center, to be built on a portion of the block bounded by 30th Street, El

Cajon Boulevard, Kansas Street, and Meade Avenue. The seniors housing development will be located at the northwest corner of El Cajon Boulevard and 30th Street. A location map is included as Attachment 1.

DISCUSSION

The Borrower

San Diego Interfaith Housing Foundation, which will develop this project, is a HOME-certified Community Housing Development Corporation (CHDO) that has previously received Housing Commission financial assistance to develop Redwood Villa, Mission Terrace, Palm Terrace, and Metro Villas. SDIHF owns and manages eleven affordable residential projects with a total of 1,500 units. SDIHF's development partner in the acquisition and development phases of this venture, Carter Reese & Associates, is an established local developer with particular expertise in planned in-fill projects. (The project will be owned by a limited partnership, of which the general partner will be known as "North Park Interfaith Housing Corporation.")

Martinez Cutri Architects, an experienced architectural firm, has designed Renaissance at North Park to be consistent with the City's "City of Villages" concept, with easy access to public transit and convenience shopping. The City's replacement of the existing North Park Community Center with a new center on the site will enhance the "village" environment.

The Developer's Statement for Public Disclosure is included as Attachment 6.

The Property

The overall project site of which the housing site is a part, comprised of portions of seven parcels and part of an alley, is now occupied by a number of separate commercial properties, some vacant; they include a furniture store, a bowling alley, grocery, a pawnshop, and a hair salon. Under the Disposition and Development Agreement, the Redevelopment Agency has the primary responsibility for acquiring the parcels and relocating any tenants. Funds for these activities that specifically affect the seniors housing site are part of the project budget.

The Renaissance at North Park apartment development will consist of 94 units of affordable rental housing for seniors and two units for resident managers. Eighty-five of the units are one-bedroom and 11 are two-bedroom, one-bathroom units. The 96 apartments will be developed in a building of three stories over ground-floor retail space, a community center, and subterranean parking with 104 spaces reserved for the seniors' apartments, on approximately 1.18 acres at the northwest corner of 30th Street and El Cajon Boulevard. The building will wrap around the corner. The building design recreates elements of existing Art Deco facades now on the site that have historic significance.

In addition to the relocated community center on-site and conveniences available very nearby in the neighborhood, a number of facilities will be incorporated within the housing complex and numerous services will be provided for the residents.

An April 15, 2003 appraisal by the Froboese Realty Group estimates the market value of the land for the seniors housing component of this redevelopment project, which includes the parking structure, at \$3,170,000, or \$33,000 per unit. (The applicant projects the cost of acquisition and demolition at \$1,829,037, or \$19,052 per unit.) An as-built appraisal will be required prior to funding. According to the appraisal, market rents in the area average \$775 for one-bedroom units and approximately \$900 for two-bedroom units comparable to those proposed in the Renaissance at North Park apartments. The rents proposed for the affordable units in the development are substantially below market.

The Funding Request

The total development cost of the project is \$17,585,598 (\$183,183/unit). The proposed financing sources include equity from the sale of 9% tax credits in the amount of \$11,844,811, a conventional bank loan of \$2,498,531, a Redevelopment Agency grant of \$819,650, an AHP loan in the amount of \$432,000, and a Housing Commission loan in the amount of \$1,990,606.

The Housing Commission loan proceeds will be utilized for acquisition and construction; funding would be contingent upon the project receiving 9% tax credits. The approval will be through the fiscal year 2004 to allow the project to be considered by the California Tax Credit Allocation Committee for the upcoming July round. 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 the applicable Federal Funds rate (currently approximately 4.8% interest), secured by a second trust deed against the property. Debt service on the Housing Commission loan will be 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.

There is strong likelihood of AHP approval of the \$432,000 loan if low income housing tax credits are awarded to the project. However, there is a chance that the award of AHP financing could be less than requested, or none at all. In this instance, the balance will have to come from other sources or as a guarantee from the developer fee on the part of the applicant (currently the proposed developer fee is \$1,185,000, which is seven percent of the total development cost).

With the requested Housing Commission loan and the Redevelopment Agency Disposition and Development Agreement in place, SDIHF will have two of the financing commitments it needs to score well on its application for 9% tax credits.

The Financial Plan

Total Development Cost:	The total development cost is \$17,585,598.
Appraised Value:	The market value appraisal of the land for the senior housing portion only is \$3,170,000 (\$33,000 per unit). An as-built appraisal will be obtained prior to funding.
Security:	Initially, the Commission's loan (maximum of \$1,990,606, or \$20,735 per unit) will be subordinate to a construction loan. Upon permanent financing, the Housing Commission's total loan amount will be secured by a second trust deed against the property.
Debt Service Ratio:	Debt service on the first position permanent loan is estimated to be 1.10 at year one.
Interest:	Applicable Federal Funds rate (<i>approximately 4.8% at time of report writing</i>).
Payments on the Housing Commission Loan	Annual debt service payments will equal the greater of \$10,793 or 50% of residual receipts. In the event \$10,793 is not available, payment to the Housing Commission will be satisfied with 100% of residual receipts.
Rent Restrictions:	A Declaration of Covenants and Restrictions with a 55-year term will be recorded against the property. Ten units will be affordable to households earning 30% of area medium income (AMI) or less; 38 units will be affordable to households earning 40% or less of AMI; 46 units will be affordable at 50% or less of AMI.
Occupancy Restrictions:	Occupancy of all units will be restricted to households earning no more than 50% of area median income. Two units will be set aside for resident managers.

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

Term: 55 years.

Management Plan: A Management Plan is currently under review.

Operating Expense: Operating expense is projected at \$281 per unit per month (\$0.40 per square foot)

Pro Forma Assumptions: Income increase is projected at 2.5 percent per year; expense increase is projected at 3.5 percent per year, and vacancy is projected at 5.0 percent per year.

Risks and Mitigation

During construction, the total indebtedness of the project will exceed the value of the property. However the permanent financing, which includes tax credit equity of approximately \$11 million, will reduce the loan-to-value ratio substantially. The per-unit and per-bedroom cost to the Housing Commission (maximum of \$20,735 and \$18,604 respectively) are not unreasonable or out of line with other new construction projects that the Housing Commission has funded.

A new construction redevelopment project typically involves a higher financial risk over an acquisition-rehabilitation project because of higher development costs and risk of completion. However, the Housing Commission's permanent loan-to-value will be most likely favorable due to the amount of equity investment provided by the 9% tax credits (equal to 70% of the total development cost). The risk is also mitigated by the fact that the Housing Commission's loan will not fund unless a tax credit reservation has been obtained and all other financing commitments are received.

Loans to tax credit projects become non-recourse upon the creation of the limited partnership for tax credit syndication. This is due to IRS regulations that make the investment undesirable if structured otherwise. The conventional first position loan is also non-recourse for the same reason. This limits the Housing Commission's ability to recover funds to the property itself, excluding other assets of the developer. This risk is typically taken by the Housing Commission in tax credit projects and will be mitigated by conservative underwriting assumptions.

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.

For the reasons stated above, staff recommends funding this project upon 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 the ability to apply for tax credits, which would make this project infeasible for affordable housing development. If the Housing Commission declined to fund this loan, the City of San Diego would lose 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,

Approved by,

Signature on File with Original Document

Jack D. Farris
Housing Finance & Development Manager

Elizabeth C. Morris
Chief Executive Officer

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- Attachments:
1. Location Map
 2. Project Development Summary
 3. Development Timeline
 4. Appraisal Summary
 5. HC Development Form
 6. Developer's Disclosure Statement*
 7. Financial Statement*

Distribution of the attachment is limited. A copy is available for review at the Housing Commission office located at 1625 Newton Avenue and at the Office of the City Clerk, 2nd Floor, 202 C Street.

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