



REPORT

DATE ISSUED: September 5, 2003 **ITEM 102**

REPORT NO: HCR03-061
For the Agenda of September 12, 2003

SUBJECT: Proposed Change of Ownership, Assumption and Repositioning of Housing Commission Loan for Summit Crest Apartments (Council District 4)

SUMMARY

Issue: Should the Housing Commission approve a change of ownership as well as an assumption and repositioning of the Housing Commission's \$670,000 residual receipts loan for Summit Crest Apartments, located at 4328-4490 Mayberry Street?

Recommendation #1: That the Housing Commission approve the transfer of ownership to MAAC Project and the assumption of the Housing Commission loan.

Recommendation #2: That the Housing Commission approve the repositioning of the loan as detailed in this Report.

Fiscal Impact: None with this action.

Affordable Housing Impact: Currently, 40 percent of the units are under affordability restrictions; seven units affordable at 50 percent Area Median Income and 14 units affordable at 60 percent of AMI. With this approval, the Housing Commission will restrict the remainder of the units (42) at 80 percent AMI. The term of affordability will be extended to 55 years from the date of the new agreement for all the units.



Proposed affordability profile:

Household Affordability	Income	# Units	Unit Type	Projected Rent	Market Rent
3 in family:					
50% AMI	\$28,700	4	2 BR	\$681	
60% AMI	\$34,440	10	2 BR	\$824	
80% AMI	\$45,950	21	2 BR	\$1,100	\$1,100
4 in family:					
50% AMI	\$31,900	3	3 BR	\$753	
60% AMI	\$38,280	11	3 BR	\$913	
80% AMI	\$51,050	21	3 BR	\$1,223	\$1,200

Environmental Review: The project was previously reviewed by the City’s Environmental Analysis Section (LDR No. 99-0540), under which the Housing Commission’s financial participation was determined to be exempt from environmental review. The City has determined that the proposed restructuring of the financing is also exempt from environmental review.

Previous Related Actions: At its meeting of January 26, 1999, the Housing Authority approved the current loan (\$670,000) (HAR 99-001) and the issuance of housing revenue bonds (HAR99-002) for this project.

BACKGROUND

Summit Crest Apartments are located at 4328-4490 Mayberry Street. The property consists of 70 units (35 two bedroom townhouse units and 35 three bedroom townhouse units) located in 18 two-story building on 3.02 acres. The project was completed in 1984; it is close to downtown, major highways, public transportation, shopping, and medical facilities. It is a few blocks from a sports parks complex, a seniors center, and the Educational Cultural Complex, which provides job training,

Summit Crest is currently owned by Southwest Summit Crest, L.P., a California limited partnership (“Southwest”) formed to acquire and rehabilitate Mayberry Apartments by the General Partner, Merit Housing, Inc. and developing co-general partner, Southwest Affordable Housing, LLC. As part of the 1999 acquisition, Southwest completed extensive rehabilitation of the complex, which had suffered significant deterioration due to deferred maintenance.

This item was not heard at Loan Committee due to a scheduling conflict.

DISCUSSION

For the 1999 acquisition, the Housing Commission provided bonding authority and a residual receipts recourse loan of \$670,000. The 1999 total development cost (with extensive rehabilitation) was \$4,268,026. Currently, the Housing Commission's loan is in second position. Debt against the project consists of the unpaid balance of the original bond issuance at \$3,338,100 plus the Housing Commission loan of \$670,000, for a total indebtedness of \$ 4,008,100.

MAAC Project, a long-established local nonprofit housing developer and social service provider, wants to purchase the property. MAAC currently has one outstanding loan with the Housing Commission (Mercado Apartments, 144 units) and MAAC is in compliance with the terms of the loan. Staff have reviewed MAAC's financial statements.

To acquire Summit Crest, MAAC needs to arrange additional financing to meet the negotiated purchase price of \$7,500,000 and total development cost of \$7,916,492. For this purpose, MAAC Project has asked to assume the bond financing and the Housing Commission loan. Bond Counsel has advised that the Chief Executive Officer can approve the assumption of the bond debt. However, MAAC is also asking the Housing Commission to subordinate its loan so that the property's new financial profile would be as follows:

Original Bond Issuance	\$3,338,100
FANNIE MAE secondary loan	1,900,000
Low Income Investment Fund loan	1,100,000
Wells Fargo loan	500,000
Housing Commission loan	670,000
<u>Subtotal all Loans</u>	<u>\$7,508,100</u>
Developer Equity	121,392
Deferred Developer Fee	<u>287,000</u>
Grand Total	<u>\$7,916,492</u>

By this plan, the Housing Commission's security will be reduced to fifth position behind debt of \$6,838,100. Using the new appraised value of \$7.5 million, loan-to-value including the Housing Commission loan becomes 100 percent. Hard debt loan-to-value is 91 percent. (Loans and terms are listed in Attachment 1, page 6.)

It should be noted that the projected debt coverage ratio of approximately 1.05 meets the Housing Commission's target minimum for nonprofit developers. Risk-mitigating factors include the fact that the project is currently 100 percent rented and that the trend in the debt coverage ratio is positive. To strengthen this trend, the Developer Fee would be drawn after the residual receipts split of 50/50 is taken.

To encourage the Housing Commission to agree to this plan, MAAC Project has offered to impose rent restrictions at 80 percent of AMI on the 42 market-rate units and to extend

the rent restrictions on all the units for a new 55-year period. While the new rent restrictions do not offer dramatic rent savings for residents at this time, savings are expected in the project's future years.

The loan will become a recourse loan to MAAC Project. In addition, MAAC will bring its array of social service opportunities to the project.

To further protect the affordability restrictions on the property, MAAC will grant to the Housing Commission cure rights on all superior debt and an option to purchase in case of default on any of the outstanding debt. The purchase price for the option will be limited to assumption of debt outstanding at the time of purchase.

ALTERNATIVE

The Housing Commission could deny this request, which would most probably result in MAAC Project being unable to complete the purchase of the units.

Submitted by,

Approved by,

Signature on File with Original Document

Jack D. Farris
Housing Finance & Development Manager

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Chief Executive Officer

Attachments: SDHC Application Form
HAR99-001

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