



Good Neighbors

San Diego  
Housing Commission

# REPORT

**DATE:** For the Agenda of May 10, 2002

**ITEM 107**

**REPORT NO.** HCR02-038

**SUBJECT:** Predevelopment Loan to Housing Development Partners (Council District 7)

## SUMMARY

**Issue:** Should the Housing Commission approve an unsecured predevelopment loan of up to \$50,000 to Housing Development Partners (HDP), to pay a portion of predevelopment costs associated with new construction of 80 rental units at 52<sup>nd</sup> and El Cajon Boulevard?

**Recommendation:** That the Housing Commission approve an unsecured predevelopment loan of up to \$50,000 in Commission funds to HDP, to pay a portion of predevelopment expenses associated with new construction of 80 rental units at 52<sup>nd</sup> and El Cajon Boulevard.

**Fiscal Impact:** Approval of this recommendation would result in the expenditure of up to \$50,000 in Housing Commission funds. It is anticipated that the predevelopment activities paid for with the proposed loan will result in an application for permanent financing.

## Certificate of Funding Availability

Certificate No.: FY02-157  
Amount: \$50,000  
Revenue Source: Housing Trust Fund Linkage and/or HOME funds  
Division: Housing Finance and Development  
Line Item: Loans

**Affordable Housing Impact:** The proposal for the 52<sup>nd</sup> Street venture is to construct 80 new rental units: 5 one-bedrooms, 39 two-bedrooms, 30 three-bedrooms, 5 four-bedrooms, and 1 manager's unit. The affordable 79 units will be:  
a) all restricted for occupancy by very-low-income households with incomes at 50%



of area median income; b) restricted for a term of fifty-five years; and c) with initial restricted rents as follows:

Bedroom Mix and % Of Area Med Income	# Of Units	Restricted Rent (net of Utility Allowance --50% AMI tax credit rent limits)	Market Rate Rents (based on "Market Point" average)	Savings vs. Market Rate Rents
1 bdrm units @ 50% AMI	5	\$507	\$754	\$247
2 bdrm units @ 50% AMI	39	\$644	\$929	\$285
3 bdrm units @ 50% AMI	30	\$710	\$1290	\$580
4 bdrm units @ 50% AMI	5	\$761	\$1432	\$671
Manager's 2 bdrm Unit	1	--	--	--
<b>Total</b>	80			

**HOME Program Compliance:** If used, the HOME funds may pay soft costs associated with new construction of housing. If the project is infeasible, any HOME funds used for predevelopment costs must be repaid to HUD.

**Equal Opportunity Statement:** HDP has no permanent staff. A Work Force Analysis for the HDP Board of Directors is attached.

**Environmental Review:** A predevelopment loan is an exempt activity under the California Environmental Quality Act (CEQA) and the National Environmental Policy Act (NEPA).

**Future Related Actions:** If feasible, the project may return for Housing Commission consideration of additional financial assistance.

## BACKGROUND

In March 1990, the Housing Commission created a 501(c)(3) nonprofit corporation, HDP, in order to preserve and increase affordable housing and to pursue collaborative opportunities with other affordable housing providers or to serve a unique niche not being met by other housing organizations.

San Diego is currently in a housing crisis, which necessitates increasing the supply of new rental units for low-income renters. In the older urban areas of the city, the housing need is aggravated by the necessity to demolish housing in order to make way for desperately needed new school sites in the vicinity of the proposed development. There are four new schools planned (Attachment 2) and it is estimated that 150 housing units may need to be demolished to make way for each of the proposed new schools. Because virtually all the buildable land in older urban areas has been developed, a creative in-fill model is needed to address the special conditions of the older urban area.

HDP has located a site at the corner of 52<sup>nd</sup> Street and El Cajon Boulevard, on the eastern edge of the Mid City Redevelopment Area. The site currently houses several older retail buildings (including: “Smart N’ Final”, “Run Right Tune & Lube”, a restaurant, Aztec Liquor, and others) which the owners (Larry Mabee and Phillip Ward) plan to remodel and rehabilitate. A portion of the site is vacant. It is proposed that the owner would complete a lot split, for purposes of financing, to develop housing on the 1.3 acre vacant southern portion as part of a larger 4+ acre commercial lot at the corner of 52<sup>nd</sup> Street and El Cajon Boulevard. HDP proposes to construct 80 rental units for families earning up to 50% of area median income (AMI) (\$30,050 annual income for a family of four). HDP has entered into an agreement to purchase the 1.3 acre unused vacant portion of the commercial lot.

## **DISCUSSION**

### The Applicant

HDP’s corporate Board includes: the Housing Commission’s CEO Elizabeth Morris (President/Chair), and two Commissioners of the San Diego Housing Commission, Thomas Steinke and Neal Arthur (Chief Financial Officer). The other Board members are community residents and professionals. Housing Commission staff acts in the capacity of staff to HDP.

HDP owns and operates the 54 units Knox Glen Townhomes at 47<sup>th</sup> and Logan (new construction rentals built in 1996 and managed by Hyder Management), and is currently the Managing Co-General Partner of the 280 units Island Village Apartments at 1245 Market Street (new construction of “living units” for single low income adults to be managed by developer Barone Galasso). HDP is also in the development stage of acquisition/rehabilitation of the Mason Hotel, 27 units of housing for special needs adults at 1345 5<sup>th</sup> Avenue.

### The Property

The proposed site is approximately a 1.3-acre rectangular portion at the south end of a 4+ acre commercial site at the southwest corner of 52<sup>nd</sup> Street and El Cajon Boulevard. The site is approximately 2 miles from San Diego State University and transit stops are nearby on El Cajon Boulevard. The site is zoned CU-2-3 (in the Central Urbanized Planned District) which allows most commercial uses and mixed use projects to include residential with a density of 1 unit per 400 square feet of lot area. The zoning would allow up to 141 units and 80 units are proposed in four two-story buildings. Building to maximum density would require high-rise construction and would limit financial feasibility.

The Proposal

As is typical with any new construction development, HDP must contract for certain services and perform certain due diligence tasks in order to properly analyze the construction feasibility. HDP is requesting a predevelopment loan of \$50,000 to pay a portion of the necessary estimated \$190,000 in predevelopment costs. Attachment 3 shows the estimated predevelopment costs. The \$140,000 balance of the necessary estimated predevelopment funds are being sought from the Local Initiatives Support Corporation (LISC), which provides loans for neighborhood redevelopment.

Community Support

Once a schematic design is proposed, the project will be presented to both the City Heights Community Planning Association and the City Heights Redevelopment Project Area Committee. These groups have heard it as an informational item only.

Terms

The predevelopment loan would be a recourse loan to HDP. Due at the earlier of development completion or two years, the loan is expected to be repaid using proceeds of the permanent financing of the development. It is typical for the predevelopment loan to be rolled into the Housing Commission permanent financing loan. In the event of default, the predevelopment loan bears interest at a rate of 10 percent.

Risks and Mitigations

There is a risk that the project may not obtain the necessary 9% tax credit financing, in which case HDP would have to repay the predevelopment loan from other sources. A recourse note against the assets of HDP could mitigate this. However, it has been the Housing Commission's practice to forgive predevelopment loans when proposed developments fail to move forward due to circumstances beyond the control of the nonprofit borrower.

**ALTERNATIVE**

The Housing Commission could deny the proposed predevelopment loan, which would result in a project implementation delay and force HDP to find other sources of the necessary predevelopment funds.

Submitted by,

Jack D. Farris  
Housing Finance and  
Development Manager

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

Elizabeth C. Morris  
Chief Executive Officer

- Attachments:
1. Location Map
  2. Existing and Proposed Elementary Schools
  3. Estimated Predevelopment Costs
  4. Existing Site Plan
  5. Estimated Development Timeline
  6. Work Force Analysis
  7. Developer's Disclosure Statement \*
  8. Predevelopment Application \*
  9. Audited Financial Statements \*

\* Distribution is limited. Copies are available for review at the office of the San Diego Housing Commission and at the office of the City Clerk, 202 C Street, 2<sup>nd</sup> Floor.

f:\hc\_predevelopment\_52<sup>nd</sup>\_street\_apartments.doc

Attachment 5  
Estimated Development Timeline  
52<sup>nd</sup> and El Cajon Apartments

May 10, 2002	Housing Commission Approval.
May 15, 2002	Execution of Predevelopment Loan Agreement.
June 30, 2002	Completion of Architect's Concept.
July 1, 2002	Start of Community Presentations.
August 30, 2002	Completion of Community Presentations.
September 2002	Application for Permanent Financing Commitments.
March 2003	Application to TCAC for Tax Credits.
May 2003	TCAC Award of Tax Credits.
August 2003	Start of Construction.
August 2004	Construction Completion.

# HOUSING COMMISSION LOAN APPROVAL

Loan Committee Recommendation  
Nonprofit Rentals

## SUMMARY SHEET

Loan Program: Housing Trust Predevelopment Loan  
Source of Funds: Housing Trust Fund Fund Linkage  
Applicant: Housing Development Partners  
Property Address: 52<sup>nd</sup> and El Cajon Boulevard  
Description of Proposed Project: Predevelopment loan for new construction of 80 units, 79 of which will be restricted for very-low families earning 50% or less of median area income.

### UNDERWRITING CRITERIA

Public funds  
Project size  
Property loan-to-value  
Property debt service:  
Acceptable financial statements  
Acceptable credit record  
Approved management plan  
Approved operating budget  
Outstanding judgments in excess of \$1,000  
Site control  
Approved development budget  
Loan secured by a Recourse Note and T.D.  
Flood insurance required

### PROPOSED LOAN

\$50,000  
80 units  
not applicable  
not applicable  
Yes X No \_\_\_  
Yes X No \_\_\_  
Yes N/A No \_\_\_  
Yes N/A No \_\_\_  
Yes \_\_\_ No X  
Yes X No \_\_\_  
Yes N/A No \_\_\_  
Yes \_\_\_ No X  
Yes N/A No \_\_\_

### PROPERTY PROFILE:

Number of Units:

Studio: 0 1BR: 0 2BR: 40 3BR: 32 4BR: 8 Total: 80 units

Proposed Encumbrances:

1st T.D.: \$ Payment Amount: \$ not applicable  
Balloon Payment: Yes \_\_\_ No X  
Negative Amortization: Yes \_\_\_ No X

2nd T.D.: \$ Payment Amount: \$ not applicable  
Balloon Payment: Yes \_\_\_ No X  
Negative Amortization: Yes \_\_\_ No X

TOTAL PAYMENTS: \$ not applicable

Purchase Price: \$ NA

Appraised Value: \_N/A\_\_\_\_\_

Proposed Loan Terms:

The term of the loan is the earlier of project completion or two years.

General Description of Work:

Predevelopment costs as shown on Attachment 2 of this report.

**PROPOSED RENTAL INCOME:**

Bedroom Mix and % Of Area Med Income	# Of Units	Restricted Rent (net of Utility Allowance --50% AMI tax credit rent limits)	Market Rate Rents (based on appraisal)	Savings vs. Market Rate Rents
2 bdrm units @ 50% AMI	39	\$644	\$650-\$875	\$6-\$231
3 bdrm units @ 50% AMI	32	\$740	\$800-\$1,200	\$60-\$460
4 bdrm units @ 50% AMI	8	\$821	\$????	\$???
Manager's 2 bdrm Unit	1	- -	- -	- -
Total Restricted	80			

Rents: see above chart; rents will be a maximum of 30 percent of gross resident income for families earning 50% of Area Median Income adjusted for family size,

Market rent: see above chart

Staff Comments/Recommendations:

Approval of the recommendations would allow the grantee to perform predevelopment tasks with the goal of new construction of 80 units, of which 79 rental units will be restricted for very-low income families.

Submitted by \_\_\_\_\_ Date \_\_\_\_\_  
Joseph Correia, Financial Specialist

Recommended Action  Approved  Denied  No Recommendation

\_\_\_\_\_  
Jack Farris Date \_\_\_\_\_  
Housing Finance and Development Manager

Final Action by Loan Committee:

Approved  Denied

Comments or Contingencies:

\_\_\_\_\_  
CHAIRMAN, LOAN COMMITTEE DATE