Good Neighbors
San Diego
Housing Commission

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REPORT

DATE: June 7, 2002 **ITEM 109**

REPORT NO.: HCR02-047

SUBJECT: Proposed Loan to City Heights Community Development Corporation for Metro Villas Residential Housing Development (Council District 3)

SUMMARY

Issue: Should the Housing Commission recommend Housing Authority approval of a loan of up to $1,000,000 plus a back-up, conditional loan (in the event that an Affordable Housing Program loan is not fully or partially secured) of up to $960,000 to City Heights Community Development Corporation for the acquisition and construction of the proposed 120-unit Metro Villas Residential Development to be located in the 3900 block of 39th Street and 40th Street in the City Heights community in Council District 3? The residential development is part of a larger office and parking complex being developed with assistance from the Redevelopment Agency.

Recommendation: Forward for Housing Authority approval a 55 year, residual receipts loan secured by a second trust deed in the amount of up to $1,000,000 in accordance with the additional terms and conditions as outlined in this report, including the receipt of nine-percent tax credit financing. If the development should not be successful in its application for an Affordable Housing Program loan from the Federal Home Loan Bank, the amount of the Housing Commission's second trust deed loan could be for up to $1,960,000.

Fiscal Impact: If this project receives an allocation of at least $13,716,527 in federal tax credit financing during the calendar year 2002, an auditor's certificate committing $1 million in HOME and Housing Trust Funds will be issued. An additional auditor's certificate will be issued (maximum of $960,000) if the Affordable Housing Program application is not fully funded.

HOME Program Compliance: An acquisition-new construction loan to a non-profit entity is an eligible activity under the HOME Program. The proposed rents are below HOME guidelines. The HOME units would equate to three 3-bedroom units and eight 4-bedroom units.

Affordable Housing Impact: Development of this project will create 119 affordable units: 48 one-bedroom flats; 36 two-bedroom flats; 24 three-bedroom townhomes; and 12 four-bedroom flats.
The units will provide affordability to 54 households at 45% of the Area Median Income and 65 households at 50% of the AMI; one unit will serve as a manager's unit.

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

Type	Sq. Ft.	Number of Units	Restricted Rent (net of utility allowance)	Market Rate	Savings
1 br @ 45%	611	32	$479	$961	$482
1 br @ 50%	611	16	$535	$961	$426
2 br @ 45%	783	10	$575	$1,081	$506
2 br @ 50%	783	25	$642	$1,081	$439
2 br Mgr	785	1	$0	N.A.	N.A.
3 br @ 45%	1,200	4	$635	$1,203	$568
3 br @ 50%	1,200	20	$707	$1,203	$496
4 br @ 45%	1,272	8	$676	$1,299	$623
4 br @ 50%	1,272	4	$757	$1,299	$542
Total Units		**120**			

Environmental Review: An Environmental Review Request has been submitted to the City's Environmental Analysis Section for review pursuant to the California Environmental Quality Act (CEQA) Guidelines, and under the National Environmental Policy Act (NEPA) pursuant to 24CFR58, Section 58.34(a). It is anticipated that the CEQA review will be complete prior to consideration of this proposal by the Housing Commission. The Mitigated Negative Declaration and Finding Of No Significant Impact (MND/FONSI) are recommended for certification at the July 9, 2002 joint agency meeting.

Community Planning Group Review: The City Heights Project Area Committee (PAC) voted on February 11, 2002 to recommend approval of the design concepts for both the office and residential components of the project. On May 13, 2002 the PAC voted to recommend approval of the summary deal points of the Development and Disposition Agreement (DDA) and associated agreements. The PAC is scheduled to consider the full DDA and associated agreements on June 10, 2002. The results of that meeting will be reported at the Agency/Council hearing. On March 4, 2002 the City Heights Area Planning Committee (CHAPC) voted to recommend approval of the design concept for the office building component but voted against approval of the residential project component. On May 6, 2002 the CHAPC voted to recommend approval of the summary deal points of the DDA and associated agreements.

Additional meetings are planned with other appropriate citizens' review committees as part of the Centre City Development Corporation (CCDC) funding approval process.

Traffic Impact: The total project, including the residential component, is served by the major collector University Avenue and is immediately adjacent to the State Route 15 freeway. Multiple public transit lines also serve it, with a major bus service transfer area located on the immediately adjacent University Avenue bridge over SR-15. The project is proposed to take its access from two driveways, one on 39th Street and the other at the intersection of 40th Street/Polk Avenue. The project is estimated to result in a net increase of 2,160 average daily trips (ADT's). Without mitigation measures the project would result in immediate significant traffic impacts to the intersection of 39th Street/University Avenue and on Polk Avenue as well as long term significant impact to the intersection of 39th Street/Orange Avenue. The developer has agreed to finance and implement mitigation measures to: install a traffic signal at 39th/University, contribute 25% of the cost for the eventual installation of a traffic signal at 39th/Orange and widen Polk Avenue and convert it from one-way eastbound to two-way in the block between 39th and 40th Streets. The Traffic Study and MND/FONSI conclude that implementation of these measures will reduce impacts to below a significant level.

Previous Related Actions: This project was previously presented as an informational item only at the May 10, 2002 Housing Commission meeting.

Future Related Action(s): The recommended funding exceeds the Housing Commission's approval limit ($250,000) and will require Housing Authority approval. Due to the potential funding by other agencies, this item will be recommended for final approval at a joint meeting of the Redevelopment Agency and the Housing Authority on June 25, 2002.

BACKGROUND

City Heights Community Development Corporation (CHCDC) submitted this application for funding in response to the current Housing Commission Notice of Funding Availability. CHCDC is applying for financial assistance from a variety of funding sources as described further in this report. This report pertains specifically to the request for Housing Commission loan funds.

The proposed affordable housing development project is part of a mixed-use office, retail and residential development to be built in the City Heights community of San Diego on the block bounded by University Avenue to the south, 40th Street (I-15) to the east, Polk Avenue to the north and 39th Street to the west. The location map is included as *Attachment 1.*

DISCUSSION

<u>The Borrower</u>

CHCDC is a recognized Community Housing Development Organization that has been working to enhance the quality of life in City Heights since 1981. CHCDC has acquired and completed rehabilitation of nine properties (132 units) with Housing Commission assistance. CHCDC also manages 421 units at scattered sites. It currently has 94 units (Hollywood Palms) under development.

CHCDC heads up the Metro Residential project development team. CHCDC will provide direct oversight for the project by both the Executive Director, Jay Powell, and the housing oversight committee of the board of directors. Mr. Barry J. Schultz will provide project management and legal services; Mr. Schultz is with the law firm of Sullivan Wertz McDade and Wallace and is a former City Heights resident and CHCDC board member. Financial consulting and planning services are being provided by Pat Getzel of Pat Getzel & Associates. Studio E Architects is providing architectural design services. The law firm of Riordan & McKenzie will provide tax credit counsel. Urban West Development will be the development consultant.

On June 14, 2001 the Redevelopment Agency of the City of San Diego approved a Memorandum of Understanding with the Workforce Partnership and City Heights Revitalization L.P., the development arm of Price Charities, that has since changed its name to San Diego Revitalization Corporation (SDRC). This MOU committed the Agency to work with the other two parties to prepare a plan and development agreement for a new office building that would house a regional career center to be operated by the Workforce Partnership. Initially, the Metro Career Center office building was the only development proposed for this block. The owner, San Diego Workforce Partnership, would offer employment services at this facility. Subsequent to the agreement approval, CHCDC approached the Redevelopment Agency and SDRC with a proposal to expand the project to include the proposed residential component. CHCDC and SDRC have negotiated a cooperation agreement whereby SDRC will be the owner and developer of the office building and CHCDC (in conjunction with a to be determined general partner) will own and develop the residential portion. The appropriate City departments are reviewing the plans and an environmental review document is currently being prepared.

CHCDC performs its own day-to-day residential property management and will perform the same service on the Metro Residential development. CHCDC will also provide on-site youth and adult tenant services and programs. CHCDC will employ a management company that specializes in tax credit projects to perform tenant selection and certification.

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

The Property

The project site consists of 24 separate parcels; a number of properties are currently under contract for acquisition. The Redevelopment Agency has prepared a DDA to cover both financial and acquisition assistance. The Redevelopment Agency would take the lead for implementing the relocation plan after approval of the DDA. Funds for the administration and relocation payments are part of the project budget.

The Metro Villas housing development will consist of one manager's unit and 119 units of affordable housing to be located in nine buildings along 39th Street and Polk Avenue. Parking will be provided in a 485 space shared residential/commercial parking structure to be constructed along the 40th Street right-of-way.

The housing development will consist of three and four story buildings; a community building; a landscaped courtyard and a tot lot. There will be 48 one-bedroom flats; 36 two-bedroom flats; 24 three-bedroom townhomes; and 12 four-bedroom flats. The units will provide affordability to 54 households at 45% or less of the Area Median Income and 65 households at 50% or less of the AMI. A two-bedroom manager's unit will also be provided.

Metro residents will be within walking distance to job training, day care, public transportation, and the newly developed Teralta Park. The development will be on a site adjacent to the proposed City Heights Transit Plaza and the proposed new Metro Center and parking garage. The Metro Center will include 70,000 square feet of office and community use facilities which will serve as the new location for the Workforce Partnership's Metro (central region) Career Center, a one stop center for job information, counseling, job skills education and job training programs. This facility will include an additional 10,000 square feet of retail space, including a 5,000 square foot child-care center. The child-care center will offer a drop-in center for care of children of Career Center clients. The 80,000 square feet building will face on University Avenue at the southbound Interstate 15 off-ramp.

The Funding Request

Total development cost for the residential project is $24,033,008 ($200,275/unit). The proposed financing sources include the following:

• Equity from the sale of 9% tax credits	$13,716,527
• Conventional bank loan	3,641,061
• Affordable Housing Program loan	960,000
• Redevelopment Agency residual receipts loan	2,500,000
• CCDC housing set-aside loan funds	2,000,000
• Housing Commission loan	1,000,000

Absent a decrease in the development cost or an increase in the permanent loan or amount of tax credits, the remaining gap of approximately $215,500 would be funded through a deferral of the developer fee.

The Housing Commission loan proceeds will be used for acquisition and closing cost financing. Housing Commission funding would be contingent upon the project receiving 9% tax credits. In consideration of the competitive process necessary to secure tax credits, the Commission's approval will be for the calendar year 2002. This will allow the project to be considered by the California Tax Credit Allocation Committee for the upcoming July round and any additional rounds of the 2002 federal tax credit allocation process that may occur. Further extension of the commitment would be at the discretion of the Housing Commission's Chief Executive Officer.

The Housing Commission funds will be combined with other public funds (CCDC and Redevelopment Agency) into a 55-year residual receipts loan at the applicable Federal Funds rate (currently approximately 6% interest), secured by a second trust deed against the property. Debt service on the public subsidy loans during the first three years of operation (starting at stabilized occupancy) will be 50% of residual receipts. Starting at year three, for the balance of the loan term, payments will equal the greater of 50% of residual receipts or $26,033, which is equal to half of the estimated residual receipts at year one. The payments on the Housing Commission loan will be a pro-rata share of the total public subsidy pay back according to the respective original amounts contributed to the public agency loan.

<u>Appraisal</u>

The land has been appraised at a value of $3,720,000 if it were available as one parcel with a willing seller. In fact, there are 24 parcels and multiple sellers. The Redevelopment Agency's cost of consolidating the new parcel is estimated at $5.9 million. With a debt load of approximately $9.4 million ($78,000 per unit) and a projected market value of approximately $12 million ($100,000 per unit), the Housing Commission's loan will be well secured with a loan-to-value of less than 80%.

With the requested loan, CHCDC will have one of the financing commitments it needs to score well on its application for 9% tax credits.

<u>The Financial Plan</u>

Total Development Cost:	The total development cost is $24,033,008
Appraised Value:	As-built appraisal value is $11,940,000.

Security:	Initially, the Commission's loan ($1,000,000) will be subordinate to a construction loan. Upon permanent financing, the Commission's total loan amount ($1,000,000) will be secured by a combined public agency second trust deed against the property.
Debt Service Ratio:	Debt service on the first position permanent loan is estimated to be 1.16 at year one.
Interest:	Applicable Federal Funds rate (approximately 6%).
Payments:	On the Public Subsidy loan of approximately $6.0 million, the Housing Commission will receive a pro rata share of debt revenue. Initially, annual debt service payments will equal 50% of residual receipts. At year three, the annual debt service payments will equal the greater of 50% of residual receipts or $26,033.
Rent Restrictions:	A Declaration of Covenants and Restrictions with a 55-year term will be recorded against the property. 54 units will be affordable to households earning 45% of area medium income or less; 65 units will be affordable to households earning 50% of area medium income or less.
Occupancy Restrictions:	Occupancy of the assisted units will be restricted to households earning no more than 50% of area median income. One unit will be set aside as a manager's unit.
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 has been approved.
Operating Expense:	Operating expense is projected at $311 per unit per month ($0.32 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

While the cost of construction will most likely exceed completion value, the per unit and per bedroom cost to the Housing Commission are comparable to other new construction projects that have been funded by the Housing Commission.

During construction, the total indebtedness of the project exceeds the value of the property. However, the permanent financing, which includes tax credit equity, would reduce the loan-to-value ratio. A new construction, redevelopment project typically involves a higher financial risk over an acquisition-rehabilitation project because of the higher development costs. However, the Commission's permanent loan-to-value will be favorable due to the amount of equity investment provided by the 9% tax credits. The risk is also mitigated by the fact that the 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 and not the assets of the developer. This risk is typically taken by the Commission in tax credit projects, and will be mitigated by conservative underwriting assumptions.
The 120-unit new construction development will include 36 large family (24 three-bedroom, 12 four-bedroom) units that will add an under-provided unit type to the existing housing stock. Further, the residences are proposed as part of a larger redevelopment project at a highly visible site.

For the reasons stated above, staff recommends funding this project upon the terms and conditions as outlined in this report.

ALTERNATIVE

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. The City of San Diego would lose an opportunity to increase the affordable housing supply by guaranteeing the affordability of 119 units to families 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 & Site 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.

ATTACHMENT 3

DEVELOPMENT TIMELINE

METRO VILLAS RESIDENTIAL DEVELOPMENT
City Heights Community Development Corporation

SAN DIEGO HOUSING COMMISSION

Loan Committee Approval	April 30, 2002
Housing Commission Informational	May 10, 2002
Housing Commission Approval	June 7, 2002
Housing Authority/Redevelopment Agency Approval	July 9, 2002
DDA Approval	July 9, 2002
Loan Closing Date	January 15, 2003
Construction Start	February 1, 2003
Estimated Full Occupancy	July 1, 2004

ATTACHMENT 2

Development Summary
(Based on $1,000,000 SDHC Loan)

June 7, 2002

Name:	Metro Villas Residential Housing Development
Location:	3900 Block of 39th and 40th Street
Description:	Rental housing for very low income small and large families
Sponsor:	City Heights Community Development Corporation

Unit Affordability

Total # of units:	120
Assisted units:	119
Restricted rents:	One-bedroom @ $479 (45%) & $535 (50%)
	Two-bedroom @ $575 (45%) & $642 (50%)
	Three-bedroom @ $635 (45%) & $707 (50%)
	Four-bedroom @ $676 (45%) & $757 (50%)
Market rent:	One-bedroom @ $961
	Two-bedroom @ $1,081
	Three-bedroom @ $1,203
	Four-bedroom @ $1,299
Percent of AMI:	54 units @ 45 percent
	65 units @ 50 percent
Affordability:	55 years

Development Cost

Total development cost:	$	24,033,008	$208 per square foot
HC development cost:	$	1,000,000	
Total development cost per unit:	$	199,278	
HC cost per unit (120 units):	$	8,333	
HC subsidy per bedroom @ 240 br's:	$	4,167	

Sources of Funds

Private Lender	$	3,641,062
San Diego Housing Commission Loan	$	1,000,000
City of San Diego Redevelopment Agency	$	2,500,000
Centre City Development Corporation	$	2,000,000
Other Funding	$	215,419
Affordable Housing Program	$	960,000
Low Income Housing Tax Credits	$	13,716,527
	$	24,033,008

Pro Forma Summary

Estimated net annual income:	$	820,846	(year 1)
Estimated annual expense:	$	448,177	(year 1): $3.87 per square foot
Annual debt service:	$	320,602	(1.16 ratio in year 1)
Estimated residual receipts:	$	52,067	(year 1)
Est. cumulative residual:	$	1,262,435	(year 15)

Development Summary
(Based on $1,960,000 SDHC Loan
As if no AHP Loan received)

Note: Unit Affordability and Pro Forma Summary information provided above would not change.

Development Cost

Total development cost:	$	24,033,008	$208 per square foot
HC development cost:	$	1,960,000	
Total development cost per unit:	$	199,278	
HC cost per unit (120 units):	$	16,333	
HC subsidy per bedroom @ 240 br’s:	$	8,167	

Sources of Funds

Private Lender	$	3,641,062
San Diego Housing Commission Loan	$	1,960,000
City of San Diego Redevelopment Agency	$	2,500,000
Centre City Development Corporation	$	2,000,000
Other Funding	$	215,419
Low Income Housing Tax Credits	$	13,716,527
	$	24,033,008

ATTACHMENT 4

APPRAISAL SUMMARY

ATTACHMENT 1
METRO VILLAS - SITE MAP