



Good Neighbors

San Diego
Housing Commission

REPORT

DATE: For the Agenda of January 19, 2001 **Item 108**

REPORT NO: HCR01-009

SUBJECT: Loan To Affirmed Housing Group For The Construction Of 112 Units at 2484 Grove Avenue (Council District 8)

SUMMARY

Issue: Should the Housing Commission approve a loan in the total amount of two million six hundred thirty thousand dollars (\$2,630,000) to Affirmed Housing Group (Affirmed) for the construction of 112 apartment units consisting of 44 one-bedroom, 34 two-bedroom and 34 three-bedroom units to be located at 2484 Grove Avenue in the Nestor Community?

Recommendation: It is recommended that the Housing Commission:

1. Approve a loan in the amount of one million four hundred thousand dollars (\$1,400,000) in the current fiscal year;
2. Commit to lend one million two hundred thirty thousand dollars (\$1,230,000) during the following fiscal year contingent upon availability of funds; and
3. Waive the Notice Of Funding Availability (NOFA) loan limit of \$2,000,000 to make this commitment, and incorporate additional terms and conditions as outlined in this report, including the receipt of nine-percent tax credit financing.

Fiscal Impact: If this project is awarded 9% tax credit financing during FY 01, an auditor's certificate committing \$1,400,000 of FY 01 Housing Finance and Development, HOME/Housing Trust Fund Loan funds will be issued, and contingent upon the availability of funding in FY02, a second auditor's certificate committing \$1,230,000 of FY02 Housing Finance and Development,



HOME/Housing Trust Fund Loan funds will be issued to complete the project financing. Should the project not receive 9% tax credits during FY01, the total amount of this funding commitment (\$2,630,000) may be extended through the end of calendar year 2001, at the discretion of the Chief Executive Officer.

Affordable Housing Impact: Development of this project will create 112 new rental units: 44 one-bedroom, 34 two-bedroom and 34 three-bedroom units. A total of 87 units will be affordable, with rents ranging from 28% to 62% of median area income; 23 units will be rented at market rates; two units will serve as managers' units. Occupancy of the 87 affordable units will be restricted to households earning a range of 28% to 62% of area median income. 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
1br@ 28%	650	5	\$271	\$725	\$454
1br@38%	650	5	\$372	\$725	\$353
1br@47%	650	21	\$472	\$725	\$253
1br@56%	650	4	\$573	\$725	\$152
<u>1br@63%*</u>	650	9	\$650	\$725	\$75
<u>2br@30%</u>	860	4	\$325	\$1,010	\$685
2br@40%	860	3	\$446	\$1,010	\$564
2br@50%	860	15	\$566	\$1,010	\$444
2br@60%	860	3	\$687	\$1,010	\$323
2br@67%*	860	7	\$775	\$1,010	\$235
3br@31%	1,000	3	\$376	\$1,285	\$909
3br@42%	1,000	3	\$515	\$1,285	\$770
3br@52%	1,000	18	\$655	\$1,285	\$630
3br@62%	1,000	3	\$794	\$1,285	\$491
3br@74%*	1,000	7	\$950	\$1,285	\$335
TOTAL		110			

*Indicates Market Rate units

Community Planning Group: The Otay Mesa/Nestor Planning Advisory Group voted 9 to 1 to approve the project on November 8, 2000.

HOME Program Compliance: A development loan to a for-profit entity is an eligible activity under the HOME Program. The proposed rents are below HOME guidelines. Eleven units will be designated as HOME units.

Equal Opportunity Statement: Affirmed has certified that it will comply with the Housing Commission's Equal Opportunity Programs.

Environmental Review: The proposed acquisition received a Negative Declaration under the California Environmental Quality Act (CEQA) and was determined to be exempt from review under the National Environmental Policy Act (NEPA), pursuant to 24 CFR Part 58, Section 58.34(a)(12). Prior to construction additional environmental review will be required.

Future Related Action: Housing Authority approval.

BACKGROUND

Affirmed submitted an application under the Housing Commission's current Notice Of Funding Availability (NOFA).

Affirmed proposes to construct 112 apartment units on an unimproved parcel located at 2484 Grove Avenue in the Nestor Community. The project anticipates nine-percent tax credit financing. A tax credit limited partnership, Nestor Family Housing Partners, L.P., will be formed and will be the ownership entity, with Affirmed acting as General Partner.

DISCUSSION

The Borrower

Affirmed is a for-profit real estate development firm located in Escondido, California. The firm specializes in the development of affordable, multifamily rental housing. Its President, James Silverwood, has over twenty years of experience in the development and construction industry, and has extensive experience acting as general partner in various partnerships with over \$100,000,000 of real estate development activity in the past 10 years. Recent developments include new construction as well as acquisition and substantial rehabilitation projects in San Diego County, Riverside County and Ventura County. The company also develops in the mid-Atlantic states of West Virginia, Virginia and North Carolina. Affirmed's financing experience includes low-income housing tax credits, multi-family tax exempt bonds, HOME funds, and Redevelopment Agency set-aside funds as well as conventional construction and permanent loans.

Over the last two years, Affirmed's local projects have included the 76-unit Mission Village Apartments, a combination new construction and acquisition/rehabilitation in response to a Request For Qualifications issued by the City of Temecula; Laurel

Village, a 41-unit acquisition/rehabilitation for large families in the City of El Cajon; the Mariposa Apartments in San Marcos, a 70-unit acquisition/rehabilitation, and Sonoma Court, a 61-unit garden-style acquisition/rehabilitation in Escondido. The Terraces Apartments, a 190-unit new construction development was completed in 1996 in Escondido.

Staff has reviewed Affirmed's credit report and it is satisfactory. It is on file at the Housing Commission offices.

Site Location/Description

The 5.92 acre site is a flat, unimproved parcel that is currently zoned for residential development. The property is bounded by multifamily units (townhomes and apartments) to the southwest, mobile homes and a motel to the west, Coronado Avenue to the north, Interstate 5 to the east, and multifamily units and a community park to the south. A Site Location Map is shown in Attachment 1

All necessary community facilities and services are located within a one mile radius of the development, including three elementary schools, a junior high school, a high school, two major grocery stores, several convenience stores, a major pharmacy/drug store, medical and dental services, churches, a wide range of restaurants and many community parks and recreation facilities.

The proposed newly constructed development will offer a mix of housing, including large family units. Of the 112 units, 44 will be one bedroom units, 34 will be two bedroom units and 34 will be three bedroom units. There will be a centrally located community building containing a management office, recreational room and resident computer learning center. The first floor will be handicap accessible. Other site features include a pool, jacuzzi, tot lot, picnic and barbecue areas, onsite parking and ample landscaping. The site will be fenced with a secured gate entry.

The project timeline is shown in Attachment 3, with an estimated construction start September 15, 2001, with completion and occupancy by February 15, 2003.

Relocation

No relocation is anticipated as the project site is presently vacant.

The Funding Request

Total development costs for the project are \$13,221,029 (\$118,045/unit). The proposed permanent financing sources include equity from the sale of nine percent tax credits in the amount of \$7,730,269, a conventional bank loan of \$2,860,760, and a

Housing Commission loan in the amount of \$2,630,000 for the balance of financing required.

Staff is proposing that the funding commitment for this project be phased, with a current commitment of \$1,400,000 of Fiscal Year 01 funds for acquisition of the project site. Housing Commission funding is contingent upon the project receiving 9% tax credits. It is also proposed that the Commission issue a commitment letter for \$1,230,000, for the balance of the funding necessary, contingent upon the availability of funds in Fiscal Year 02.

The Commission loan will be a 55-year residual receipts loan at 3% interest, secured by a second trust deed against the property. To preserve the full amount of the tax credit award, the Commission typically charges the Federal Funds rate on HOME funds provided to the project, currently estimated at 6.5%. An exception exists however, if the project restricts at least 40% of the total units to households at 50% or below median area income. Affirmed is proposing that 53% of the total units in the project be restricted to households at 50% or below median area income. Therefore, staff is proposing that all Commission funds, up to the NOFA limit of \$2,000,000, be loaned at the 3% interest rate. The amount of the loan that exceeds the NOFA limit will be loaned at the Federal Funds rate.

This interest rate structure is proposed as a more equitable way to consider a project proposal that exceeds the NOFA funding limits. It is recognized that NOFA funds are limited, however Staff did not want to reject a proposal simply because it exceeded the per project limit. The proposed is desirable because it is new construction that will add units to the housing stock, including 34 family units. The per unit development costs are within the Housing Commission's underwriting standards and the loan-to-value ratio on the proposed Commission loan is low at 55%. For these reasons, staff is recommending the additional loan amount (\$630,000) but at the 6.5% Federal Funds interest rate, and not the NOFA rate of 3%

Debt service on the Commission's loan 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 which are expected to increase over time, or \$20,830 which is equal to half of the estimated residual receipts at year one.

The appraised value of the land "as-is" is \$1,400,000, which supports the purchase price. An estimate of value after completion of construction is \$9,982,112, based on comparables of recent sales of existing units in the area. This results in an estimated loan-to-completion value, including the Housing Commission's loan, of 55%. An as-built appraisal will be obtained upon completion of the design and construction budget, and prior to the Commission's loan funding.

By phasing the funding request, Affirmed will have the financing commitments it needs to apply for 9% tax credits, and the Commission will not over-commit available funds under the current Notice Of Funding Availability.

The Financial Plan

Total Development Cost:	The total development cost is \$13,221,029
Appraised Value:	The appraised land value "as-is" is \$1,400,000. An estimated value at completion of construction is \$9,982,112. This results in an estimated loan-to-completion value including the Housing Commission's loan of 55%. An as-built appraisal will be obtained prior to funding.
Security:	Initially, the first portion of the Commission's loan (\$1,400,000) will be secured by a first trust deed against the property; during construction, the Commission will be subordinate to a construction loan. Upon permanent financing, the Commission's total loan amount (\$2,630,000) will be secured by a second trust deed against the property.
Debt Service Ratio:	Debt service on the first position loan is estimated at 1.15 at year one.
Interest:	3% simple interest on funds up to the \$2 million NOFA limit; 6.5 % simple interest on funds exceeding the NOFA limit.
Payments on the Housing Commission's Loan	Initially, annual debt service payments will equal 50% of residual receipts. At year three, annual debt service payments will equal the greater of 50% of residual receipts or \$20,830.
Rent Restrictions:	A Declaration of Covenants and Restrictions with a 55-year term will be recorded against the property.
Occupancy Restrictions:	Occupancy of the assisted units will be restricted to households earning no more than

28% to 60% of area median income. Two units will be set aside as managers' units.

Recourse: The loan will be recourse during construction but become non-recourse at the creation of the tax credit limited partnership as provided for in the Housing Commission lending policy for tax credit projects.

Term: 55-years

Management Plan: A Management Plan is currently under review.

Operating Expense: Operating expense is projected at \$306 per unit per month.

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

The project as proposed exceeds the two million dollar per loan limit of the Notice Of Funding Availability. On the other hand, the per unit and per bedroom cost to the Housing Commission is not unreasonable or out of line with other new construction projects that have been funded by the Commission. In addition, the Commission's loan will not fund unless a tax credit reservation has been obtained. The balance of funding requested for the project will only be provided if available under the next fiscal year's NOFA. By that time, the Commission will know if the project has its financing commitments and is moving forward.

During construction, the total indebtedness of the project exceeds the value of the property. However the permanent financing, which includes tax credit equity, reduces the loan-to-value to 55%. This loan-to-value is favorable and is achieved due to the amount of equity investment provided by the 9% tax credits.

The uncertainties of the construction process are further mitigated by the fact that the property is vacant, raw land that is already zoned for residential use. The Community planning group has approved the project.

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 is deemed mitigated by conservative underwriting assumptions.

The new construction of 112 units will add to the housing stock, and will include the addition of 34 large family (three-bedroom) units.

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 contract to purchase the land and the ability to apply for tax credits, which would make this project infeasible for affordable housing development

Respectfully submitted,

Pat Duplechan
Director, Housing Programs

**Signature on file
With Original Document**

Approved by,

Elizabeth C. Morris
Chief Executive Officer

DEWITT: G/HFShare/Reports/AffmdHC.doc

- Attachments:
1. Project Location Map
 2. Project Development Summary
 3. Development Timeline
 4. HC Development Form
 5. Developer's Disclosure Statement*
 6. Audited Financial Statements*
 7. Appraisal (land) of All Lots Comprising The Entire Project Site*

*Limited Distribution. Copies are available for review at the San Diego Housing Commission office located at 1625 Newton Avenue.

ATTACHMENT 2

Project Development Summary November 29, 2000

Name: Nestor Family Apartments
 Location: 2484 Grove Avenue
 Description: Rental housing for very low and low income residents
 Sponsor: Affirmed Housing Group

Unit Affordability

Total # of units: 112
 Assisted units: 87
 Restricted rents:

Type	Sq. Ft.	Number of Units	Restricted Rent (net of utility allowance)	Market Rate	Savings
1br@ 28%	650	5	\$271	\$725	\$454
1br@38%	650	5	\$372	\$725	\$353
1br@47%	650	21	\$472	\$725	\$253
1br@56%	650	4	\$573	\$725	\$152
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2br@30%	860	4	\$325	\$1,010	\$685
2br@40%	860	3	\$446	\$1,010	\$564
2br@50%	860	15	\$566	\$1,010	\$444
2br@60%	860	3	\$687	\$1,010	\$323
2br@67%*	860	7	\$775	\$1,010	\$235
3br@31%	1,000	3	\$376	\$1,285	\$909
3br@42%	1,000	3	\$515	\$1,285	\$770
3br@52%	1,000	18	\$655	\$1,285	\$630
3br@62%	1,000	3	\$794	\$1,285	\$491
3br@74%*	1,000	7	\$950	\$1,285	\$335
TOTAL		110			

*Indicates Market Rate units

Market rent: Twenty-three units will be rented at market rates. Two units will be reserved as managers' units.

Percent of MAI: Restricted Rents will be affordable to persons earning between 28% and 62% percent of median area income.

Affordability: 55 years

Development Cost

Total development cost:	\$13,221,029
HC development cost:	\$2,630,000 (maximum)
Total development cost per unit:	\$118,045
HC cost per (restricted) unit:	\$30,230
Subsidy per (restricted) bedroom @ 166 BR's:	\$15,843

Sources of Funds

Conventional Loan – 1 st TD	\$2,860,760
Low Income Housing Tax Credits:	\$7,730,269
SDHC – 2 nd TD	\$2,630,000 (55-year amortization)
Estimated Value At Completion:	\$9,982,112

Pro Forma Summary

Estimated annual income:	\$767,227	(Year 1)
Estimated annual expense:	\$410,987	(Year 1)
Net Operating Income	\$317,878	
Annual debt service, 1 st TD	\$276,220	(1.15 debt coverage)
Estimated residual receipts:	\$ 41,659	
Min. debt service, HC Loan	\$ 20,830	

ATTACHMENT 3

DEVELOPMENT TIMELINE

- Loan Committee December, 2000
- Housing Commission January, 2001
- Housing Authority February, 2001
- Tax Credit Application March 15, 2001
- Tax Credit Reservation June 30, 2001
- Estimated Loan Closing/Acquisition Date: August 15, 2001
- Estimated Start of Construction September 15, 2001
- Estimated Full Occupancy February 15, 2003