



Good Neighbors

San Diego
Housing Commission

REPORT

ITEM 111

DATE: For the Agenda of January 19, 2001

REPORT NO. HCR 01-012

SUBJECT: Loan to Hampstead Partners, Inc. for the Acquisition and Rehabilitation of 4019-4027 Oakcrest Drive
(Council District 7)

SUMMARY

Issue: Should the Housing Commission recommend Housing Authority approval of a loan of up to \$2,000,000 to Hampstead Partners, Inc. for the acquisition and rehabilitation of an 81-unit property located at 4019-4027 Oakcrest Drive?

Recommendation: That the Housing Commission recommend Housing Authority approval of a 3% residual receipts loan secured by a second trust deed in the maximum amount of \$2,000,000 for this project.

Fiscal Impact: Approval of Recommendation would result in the expenditure of up to \$820,650 in HOME Program Funds and \$1,179,350 in Housing Trust Funds.

Certificate of Funding Availability:

Certificate No.:	01-121
Amount:	\$2,000,000
Revenue Sources:	HOME @ \$820,650 HTF @ \$1,179,350
Division:	Housing Finance
Line Item:	Loans (\$2,000,000)

Affordable Housing Impact: Approval of the recommendation will provide 72 units affordable to families earning no more than 60 per cent of the



area median income. In this property, 3 studio units will be affordable to families at 50% and 60% of area median income; 59 one-bedroom units will be affordable to families at 50% and 60% of area median income; 5 two-bedroom units will be affordable to families with incomes at 50% and 60% of area median income; and 5 three-bedroom units will be affordable to families at 50% and 60% of area median income. The units will be affordable for a 55-year period. One three-bedroom unit will be a manager's unit. (See Attachment 5, page 4 for detailed rent schedule.)

HOME Program Compliance: An acquisition and rehabilitation loan is an eligible activity under HOME rules. Of the 81 units, 11 would be HOME funded and subject to HOME rent restrictions at or below 60 percent of area median income. The designated HOME units would consist of (1) studio unit, (8) one-bedroom units, (1) two-bedroom unit, and (1) three-bedroom unit. Housing Commission rent restrictions would apply to 61 of the remaining units.

Environmental Review: The City's Environmental Analysis Section has determined that the proposed project is exempt from review pursuant to Section 15061(b)(3) of the California Environmental Quality Act (CEQA) Guidelines, and under the National Environmental Policy Act (NEPA) pursuant to 24CFR58, Section 58.34(a).

Community Planning Group Review: The project was presented to the City Heights Area Planning Committee on January 3, 2001. The Committee favors improving multifamily complexes like this one in City Heights; however, the Committee would prefer to see participation by a local community-based nonprofit.

Equal Opportunity Statement: Hampstead Partners is in compliance with the Housing Commission's Equal Opportunity Programs.

Previous Related Action: This project was previously presented to the Loan Committee as an informational report on December 12, 2000 and as an action item at the January 9, 2000 Loan Committee meeting.

Future Related Action: Loan: The recommended funding exceeds the Housing Commission's approval limit (\$250,000) and will require Housing Authority approval. Bond: A specific authorization to issue bonds will be sought from both the Housing Commission and the Housing Authority at a

later date. The final determination of the ownership entity will be brought back to the Housing Commission for their approval.

BACKGROUND

Hampstead Partners, Inc. submitted this application for funding under the Housing Commission's current Notice of Funding Availability For The Construction, Acquisition And Operation of Affordable Rental Housing. Hampstead is proposing a co-general partnership, in a tax credit limited partnership, with Housing Development Partners of San Diego. Housing Development Partners (HDP) is the Housing Commission's subsidiary non-profit. HDP has expressed interest but no formal relationship has been established.

DISCUSSION

The Borrower

Hampstead Partners, Inc. is a for-profit corporation that was formed in 1992. The three managing principals are Chris Foster, Jay Wentz and Norman Root. Sol Price owns a minority interest in the firm. The mission statement of this firm is: "*Comprehensive community development through the preservation and creation of affordable housing by coalescing various governmental/local programs and financing programs to effectuate the development, repositioning and rehabilitation of these properties.*" Delivery of enhanced services to the residents through coordination with local non-profit and service groups is also an integral part of its mission.

As its market niche, Hampstead Partners, Inc. has identified acquisition and rehabilitation of older assisted properties in danger of being converted to market rate use. It has acquired a 150-unit senior development in Illinois and seven Montana properties with an aggregate total of 410 units. The properties have been acquired and rehabilitated with tax credits and bonds with a minimum affordability period of 40 years. Hampstead is currently in negotiation for the acquisition and rehabilitation of a commercial property that will include the development of a new construction 30-unit attached housing development at Park Boulevard and Robinson Street in Hillcrest.

Hampstead has yet to identify a contractor to perform the rehabilitation construction. If this venture is done in partnership with HDP, it is proposed that HDP would be responsible for the day-to-day management of the development. Hampstead proposes to share (in a minority position) in any after debt service cash flow above a predetermined level.

In order to meet the demands of the seller and purchase contract, Hampstead will close the initial acquisition under its name. Transfer to the Hampstead/HDP partnership entity would occur after all approvals have been made and agreements have been completed.

The Property

The Pacific Cove Apartments are 12 years old. The 81-unit property consists of three 3-story structures located in the City Heights Revitalization area. It is one block west of Colina Del Sol Park for which a new clubhouse with a meeting room for community use is currently under construction.

Pacific Cove has two laundry facilities, a playground, and gate-secured parking with 30 covered and 49 open spaces. The site has good access to public transportation, freeways, and shopping.

The current configuration consists of 3 studio units, 60 one-bedroom units, and 18 two-bedroom units, or a total of 3 studios plus 96 bedrooms. Hampstead proposes to reconfigure the existing units to a mix that will provide some larger family units. The proposed reconfiguration will provide six more one-bedroom units, twelve less two-bedroom units and six new three-bedroom units. The ultimate design would consist of three studios plus 96 total bedrooms in 66 one-bedroom units, 6 two-bedroom units, and 6 three-bedroom units as seen in the following table. Art Balourdas, AIA, who is the Director of Architecture and Planning for Hampstead, developed the redesign.

	Studio	One-bedroom	Two-bedroom	Three-bedroom
Current Unit Mix	3	60	18	0
Proposed Unit Mix	3	66	6	6

The acquisition price is \$3,250,000. According to the MAI Appraisal, the "as-is" value is \$3,279,000 and the "after rehab" value is \$4,350,000.

The rehabilitation estimate including overhead and fees is approximately \$1,455,523 (\$17,969 per unit). Attachment 9 consists of the Developer's proposed scope of work and the staff-prepared Preliminary Inspection List. The scope of work includes interior unit reconfigurations, exterior painting and roof replacement and repairs as needed. Interior improvements will include some door replacements, new floor and wall finishes, electrical improvements, plumbing repairs and kitchen upgrades. The exterior upgrades will consist of additional landscape improvements, fencing, railing, and retaining wall repairs, elevator repairs and parking lot resealing and striping. Additional work will include retrofitting of 4 units for handicapped accessibility and the demolition and reconstruction to code of the Manager's Office, Laundry Room and Maintenance Shop.

The operating budget includes funds to pay for repairs and replacements anticipated to be needed within the next five, ten, and fifteen years.

The applicant is currently negotiating with Pacific Relocation Consultants to develop a relocation plan. The plan would include relocation of any affected and eligible residents within the existing project. Due to the number of units that will be reconfigured to larger size units, no off-site permanent relocation costs are anticipated for any oversize households that may be identified who are currently in residence.

The seller of the property is DG & W LP, a California limited partnership. Southside Properties. One of its limited partners is William Ayyad, who is a member of the Housing Commission Loan Committee.

The Funding Request

The total development costs for the project would be \$6,041,060. The first position funding is proposed to be a Housing Authority issued, multi-family tax -exempt bond in the approximate amount of \$3,017,642. A companion Housing Commission Report has been prepared regarding bond issuance. Total loans against the property would be \$5,017,642. It additionally assumes an allocation of 4% tax credit equity of \$851,576.

The Commission loan will be a 55-year residual receipts loan at 3% interest, secured by a second trust deed against the property. 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 or \$22,833, which is equal to half of the estimated residual receipts at year one. Beginning in the eleventh year, in the unlikely event that there has been a shortfall of payments that were not made up in the preceding years, the Housing Commission loan would be re-amortized to ensure the payoff of the loan within the 55 year term.

The appraised value of the property "as-is" is \$3,279,000, which exceeds the purchase price by \$29,000. An estimate of stabilized market value after completion of construction is \$4,350,000, 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 115%.

The Financial Plan

Total Development Cost	The total development cost is \$6,041,060, which includes the purchase price and other development costs.
Appraised Value:	The "as-is" value is \$3,279,000 and the "after rehab" value is \$4,350,000.
Security:	The loan will be secured by a second trust deed against the property.
Loan-to-Value:	The after-rehab loan to value is 115%.
Debt Service Ratio:	The debt service ratio on the first trust deed in the first year is 1.21.
First Trust Deed:	It is proposed that an amortized Tax Exempt Bond of at least \$3,017,642 will be in first position with a term of 35 years and a 6.65% interest rate.
Second Trust Deed:	Housing Commission funds; 3% simple interest.

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Payments on the Second Trust Deed: 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 \$22,833.

Rent Restrictions: A Declaration of Covenants and Restrictions with a 55-year term will be recorded against the property. 20% or 16 of the units will be affordable to households earning 50% of area median income (AMI) or less. 70% or 56 of the units will be restricted to households earning 60% of AMI or less. 10% or 9 of the units will be market rate units.

Occupancy Restrictions: Occupancy of 72 units will be restricted to families earning no more than 60% of AMI. One unit will be designated for an on-site manager.

Recourse: The loan will be a non-recourse loan to the ultimate partnership entity.

Term: Fifty-five years

Management Plan: A Management Plan has been submitted for approval.

Operating Expense: Average operating expense of \$251 per unit per month includes a replacement reserve.

Pro Forma Assumptions: Income increases are projected at 2.5 percent per year; expense increases are projected at 3.5 percent per year; vacancy is projected at 5.0 percent per year.

Risks and Mitigations

The acquisition price is \$29,000 less than the current "As-Is" value. Initially, the amount of the loan that exceeds the after-rehab value will be uncollateralized. However, the risk level is considered to be low as it is mitigated by conservative proforma assumptions, rents below market, and a 1.21 debt service ratio that is higher than the Commission minimum ratio of 1.05. The operating proforma includes replacement reserves to help protect the project's condition and performance in future years.

This potential property acquisition is strengthened by the applicant's extensive real estate experience and portfolio record with similar types of projects.

ALTERNATIVE

Hampstead will provide the equity and loan guarantees necessary to execute the purchase of the property on a conventional basis prior to obtaining Housing Commission funds, bond proceeds, or tax credits.

In the event that the applicant is unable to obtain an allocation of the multi-family tax-exempt bonds, an alternative funding scenario utilizing 501(c)(3) Tax Exempt Bond financing is proposed. Under this proposed scenario, the percentage of affordable units would be reduced from 90% to 75%. Debt coverage would be slightly reduced to 1.19:1. The rehab scope of work would reduce from \$1,455,523 (\$17,969 per unit) to \$1,004,017 (\$12,395 per unit). If this alternative is pursued, staff will return with a complete financing plan to be considered for approval by the Housing Commission and Housing Authority.

The Commission could decline to fund this gap loan, in which case the City of San Diego would lose an opportunity to develop a partnership with an experienced affordable housing developer as well as lose an opportunity to increase the affordable housing supply by guarantying the affordability of 72 units to families at 60% or less of the area median income for a period of 55 years.

Respectfully submitted,

Patricia Duplechan
Director, Housing Programs

**Signature on file
With Original Document**

Approved by,

Elizabeth C. Morris
Chief Executive Officer

CDEBACA: G/HFShare/Reports/pacificcove/hc.report.doc

- Attachments:
1. Location Map
 2. Project Development Summary
 3. Development Timeline
 4. Summary of Previous Housing Commission Loans
 5. HC Development Form
 6. Developer's Disclosure Statement*
 7. Financial Statement*
 8. Appraisal*
 9. Rehabilitation Cost Estimate*

*Distribution of these attachments is limited. Copies are available for review at the Housing Commission offices.

ATTACHMENT 2

Project Development Summary November 29, 2000

Name: Pacific Cove Apartments
Location: 4019-4027 Oakcrest Drive
Description: Rental housing for very low income residents
Sponsor: Hampstead Partners, Inc.

Unit Affordability

Unit Affordability

Total # of units:	81 (72 restricted units)			
Bedroom size	<u>Studio</u>	<u>1 Bedroom</u>	<u>2 Bedroom</u>	<u>3 Bedroom</u>
Restricted Units	3	59	5	5
Restricted Rents	\$445 (3)	\$472 (13)	\$564 (1)	\$603 (1)
		\$536 (46)	\$626 (4)	\$653 (4)
Market Rent	\$500	\$600	\$700	\$800
% of AMI	48%	45%/51%	48%/54%	47%/50%
Affordability Period:	55 years			

Development Cost

Total development cost:	\$6,041,060
HC loan amount:	\$2,000,000
Total development cost per unit:	\$74,581
HC cost per restricted unit:	\$27,778
Subsidy per bedroom @ 87 BR's:	\$22,989

Sources of Funds

SDHC issued Tax Exempt Bond 1st TD	\$3,017,642	(35-year amortization)
Housing Commission 2nd TD	\$2,000,000	(55 year/residual receipts loan)
Appraised value (after-rehab):	\$4,350,000	

Pro Forma Summary

Estimated annual income:	\$512,031	(Year 1)
Estimated annual expense:	\$243,848	(Year 1)
Annual debt service:	\$222,517	(1.21 ratio-Year 1)
Estimated residual receipts:	\$45,666	(Year 1)
Estimated cumulative residual:	\$1,138,730	(Year 15 net)

ATTACHMENT 3

DEVELOPMENT TIMELINE

4019-4027 OAKCREST DRIVE HAMPSTEAD PARTNERS, INC.

Housing Commission Approval	January 19, 2001
Housing Authority Approval	February 13, 2001
Acquisition	March 15, 2001
Rehabilitation Start	April 15, 2001
Construction Complete	April 15, 2002