



Good Neighbors

San Diego
Housing Commission

REPORT

ITEM 110

DATE: For the Housing Commission Agenda of January 19, 2001

REPORT NO.: HCR01-015

SUBJECT: Loan to Orange Housing Development Corporation for new construction at 2065 Avenida Del Mexico (Council District 8)

SUMMARY

Issue: Should the Housing Commission recommend Housing Authority approval of a loan in the total amount of one million five hundred thousand dollars (\$1,500,000) to Orange Housing Development Corporation (OHDC) for the construction of 42 three-bedroom apartment units at a project to be known as Otay Mesa Family Villas and to be located at 2065 Avenida Del Mexico in the Nestor Community?

Recommendation: It is recommended that the Housing Commission approve a loan in the amount of one million five hundred thousand dollars (\$1,500,000) in accordance with the additional terms and conditions as outlined in this report, including the receipt of nine-percent tax credit financing.

Fiscal Impact: If this project receives an allocation of at least \$4,000,000 in federal tax credit financing during the calendar year 2001, an auditor's certificate committing \$1.5 million in HOME and Housing Trust Funds will be issued.

Affordable Housing Impact: Development of this project will create 42 new three-bedroom rental units. All units will be affordable, with rents ranging from 45% to 59% of median area income; one unit will serve as a manager's unit. Occupancy of the 41 rental units will be restricted to households earning a range of 45% to 59% 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
3br@45%	1,103	7	\$591	\$1,396	\$805
3br@54%	1,103	21	\$663	\$1,396	\$733
3br@59%	1,103	13	\$735	\$1,396	\$661
3br@0%*	1,103	1	\$0	N.A.	N.A.
TOTAL		42			

*Indicates Manager unit

Community Planning Group: The Otay Mesa/Nestor Planning Advisory Group received an informational presentation of the project on May 10, 2000. OHDC received comments and input to use as a basis for presentation to the Otay Mesa/Nestor Planning Advisory Group for action at a later date.

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. Eleven units will be designated as HOME units.

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

Environmental Review: The City's Environmental Analysis Section has determined that this project is exempt from review under the California Environmental Quality Act and is also "Exempt" under the National Environmental Policy Act (NEPA), pursuant to 24 CFR Part 58.34(a)(12).

Previous Related Action: The Loan Committee voted to recommend approval of this project at its meeting of January 9, 2001.

Future Related Action: This loan proposal would require Housing Authority approval.

BACKGROUND

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

OHDC proposes to construct 42 apartment units on one unimproved parcel and one parcel with one single-family structure located at 2065 Avenida Del Mexico in the Nestor Community. The 25 year old, non-historic, single-family structure will be

demolished as part of the proposed project. The project anticipates receipt of nine-percent low-income housing tax credit financing.

DISCUSSION

The Borrower

OHDC, a nonprofit organization formed in 1990, is located in the city of Orange, California. The firm specializes in the development of affordable housing units in California. OHDC has been certified as a CHDO in Orange County, California. Since 1992, OHDC has been involved in the construction and rehabilitation of 25 projects for a total of 1,075 units. OHDC is the managing general partner of the owner entity for 845 units and is the owner of the remaining 230 units. OHDC is the managing general partner for The Knolls, a 62-unit new construction family project located in San Marcos completed last year. Otay Mesa Family Villas would be the first project for OHDC to be located in the City of San Diego.

The OHDC Development Team for this project consists of Mr. Eunice Bobert, Chief Executive Officer; Ms. Kay Smoot, Project Manager; and Mr. Val Fernandez, Construction Manager (Mr. Fernandez is also a licensed general contractor). Its financing experience includes low-income housing tax credits, multifamily tax-exempt bonds, HOME funds, and Redevelopment Agency set-aside funds as well as conventional construction and permanent loans.

Staff has reviewed OHDC's credit report and it is satisfactory. The report is on file at the Housing Commission offices. OHDC has also provided audited financial statements of activity.

OHDC has received a \$10,000 Early Assistance Loan from the Housing Commission for certain predevelopment expenses related to this project.

Site Location/Description

The 2.38-acre site is a flat, unimproved parcel that is currently zoned for residential development. The site also contains a 1,100 square foot single-family residence that would be removed as part of the proposed development. The property is surrounded by multifamily units (townhomes and apartments) to the south and west, Palm Avenue to the north, and Interstate 5 to the east. 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 bus and light rail transit services, an elementary school, a high school, a major grocery store, several convenience stores, medical and dental services, churches, a wide range of restaurants and a community park and recreation facility.

The proposed new construction development will offer critically needed large family units. All units will be three bedroom units in a two-story mediterranean garden apartment design. The first floor will be handicap accessible. There will also be a management office, community room and resident computer learning center. The learning center will include after school tutoring and a resource center. Other site features include a tot lot, on-site parking and ample landscaping.

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

The project consists of two sites. The Burton & Glenn Vandenberg Trust owns one. Myron Jones owns the other. Mr. K.C. Wilson, DBA KB2S, Incorporated, has negotiated sales agreements to purchase the parcels and to sell the site to OHDC. Mr. Wilson and OHDC are discussing the possibility of his assisting the development team in the ongoing development of the site. For this reason, Mr. Wilson's statement for public disclosure is also included as part of Attachment 5.

Relocation

No relocation is anticipated as the project site is presently vacant and the single-family residence is occupied by a member of the family trust in ownership of the site.

The Funding Request

Total development costs for the project are \$7,125,424 (\$169,653/unit). The proposed financing sources include equity from the sale of 9% tax credits in the amount of \$4,177,592, a conventional bank loan of \$1,404,191, a general partner equity loan in the amount of \$43,641, and a Housing Commission loan in the amount of \$1,500,000 for the balance of financing required.

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 approval will be for the calendar year 2001. This will allow the project to be considered by the California Tax Credit Allocation Committee for both rounds of the 2001 federal tax credit allocation process. Further extension of the commitment would be at the discretion of the Housing Commission's Chief Executive Officer.

Approximately \$915,000 of Commission loan proceeds will be utilized for acquisition and closing cost financing. The balance will be applied to construction costs. Additional construction phase financing will be accomplished through the utilization of approximately \$3,152,000 in a construction loan, Developer capital of approximately \$30,000, approximately \$2,089,000 of tax credit investor equity paid in at the closing of the construction loan and the deferral of some project costs and the developer fee. The construction loan is larger than needed and will have approximately \$400,000 balance

left to draw at project completion. Upon completion of project occupancy, the first position, permanent loan of approximately \$1,404,191 will be funded along with \$2,000,000 of investor equity to pay off the construction loan balance. The balance of the unpaid project cost is the deferred developer fee, to be paid through the final funding of the investor equity upon stabilization of the project.

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 \$7,307, 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 land "as-is" is \$900,000, which supports the purchase price. An estimate of stabilized market value after completion of construction is \$4,900,000, 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 60%. An as-built appraisal will be obtained upon completion of the design and construction budget, and prior to the Commission's loan funding.

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

The Financial Plan

Total Development Cost:	The total development cost is \$7,125,424.
Appraised Value:	The appraised land value "as-is" is \$900,000. An estimated value at completion of construction is \$4,900,000. This results in an estimated permanent loan-to-completion value including the Housing Commission's loan of 60%. An as-built appraisal will be obtained prior to funding.
Security:	Initially, the Commission's loan (\$1,500,000) will be secured by a first trust deed against the property; during construction, it will be subordinate to a construction loan. Upon permanent financing, the Commission's total loan amount (\$1,500,000) will be secured by a second trust deed against the property.

Debt Service Ratio:	Debt service on the first position permanent loan is estimated to be 1.11 at year one.
Interest:	3% simple interest.
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 \$7,307.
Rent Restrictions:	A Declaration of Covenants and Restrictions with a 55-year term will be recorded against the property. Seven units will be affordable to households earning 45% of area medium income or less; 21 units will be affordable to households earning 50% of area medium income or less; and 13 units will be affordable to households earning 59% of area medium income or less.
Occupancy Restrictions:	Occupancy of the assisted units will be restricted to households earning no more than 45% to 59% of area median income. One unit will be set aside as a manager's unit.
Recourse:	The loan will be a recourse loan during the construction period. Once the tax credit financing is in place, the loan will be non-recourse as provided for in the Housing Commission lending policy.
Term:	55-years
Management Plan:	A Management Plan is currently under review.
Operating Expense:	Operating expense is projected at \$299 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

While the cost of construction exceeds completion value, 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.

During construction, the total indebtedness of the project exceeds the value of the property. However the permanent financing, which includes tax credit equity, will reduce the loan-to-value ratio to 60%.

A new construction 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 of 60% is favorable and is achieved 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.

The uncertainties of the construction process are mitigated by the fact that the property is vacant, raw land that is already zoned for residential use.

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 42 large family (three-bedroom) units will add an under-provided unit type to the existing housing stock.

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.

Submitted by,

Approved by,

**Signature on File
Will Original Document**

Pat Duplechan
Director of Housing Programs

Elizabeth C. Morris
Chief Executive Officer

- Attachments:
1. Project Location Map
 2. Project Development Summary
 3. Development Timeline
 4. HC General Application Form (pro forma)
 5. Developer's Disclosure Statement*
 6. Audited Financial Statements*
 7. Appraisal Summary*

*Distribution is limited. Copies are available for review at the Commission Office.

ATTACHMENT 2
Project Development Summary
December 20, 2000

Name: Otay Mesa Family Villas
 Location: 2065 Avenida Del Mexico
 Description: Rental housing for very low income residents
 Sponsor: Orange Housing Development Corporation

Unit Affordability

Total # of units: 42
 Restricted units: 41

Restricted rents:

Type	Sq. Ft.	Number of Units	Restricted Rent (net of utility allowance)	Market Rate	Savings
3br@45%	1,103	7	\$591	\$1,396	\$805
3br@54%	1,103	21	\$663	\$1,396	\$733
3br@59%	1,103	13	\$735	\$1,396	\$661
3br@0%*	1,103	1	\$0	N.A.	N.A.
TOTAL		42			

*Indicates Manager's unit.

Market rent: No units will be rented at market rates. One unit will be reserved as a manager's unit (*).

Percent of MAI: Restricted Rents will be affordable to persons earning between 45% and 59% percent of median area income.

Affordability: 55 years

Development Cost

Total development cost: \$7,125,424
 HC development cost: \$1,500,000
 Total development cost per unit (42 units): \$169,653
 HC cost per (restricted) unit (41 units): \$36,585
 Subsidy per (restricted) bedroom @ 123 BR's: \$12,195

Sources of funds – Construction

Construction Loan – 2 year 1 st TD	\$3,152,008
Tax Credit Investor Equity	\$2,088,796
SDHC (includes \$915,000 acquisition)	\$1,500,000
Developer Capital	\$30,001

Sources of Funds - Permanent

Conventional Loan – 1 st TD	\$1,404,191
Low Income Housing Tax Credits:	\$4,177,592
General Partner Equity Loan	\$43,641
SDHC – 2 nd TD	\$1,500,000 (55-year amortization)
Estimated Value At Completion:	\$4,900,000

Pro Forma Summary

Estimated annual income:	\$303,934	(Year 1)
Estimated annual expense:	\$150,697	(Year 1)
Net Operating Income:	\$153,237	
Annual debt service, 1 st TD:	\$138,623	(1.11 debt coverage)
Estimated residual receipts:	\$ 14,613	
Min. debt service, HC Loan:	\$7,307	

ATTACHMENT 3

DEVELOPMENT TIMELINE

- Loan Committee January 9, 2001
- Housing Commission January 19, 2001
- Housing Authority January 30, 2001
- Tax Credit Application March 15, 2001
- Tax Credit Reservation May 30, 2001
- Estimated Loan Closing/Acquisition Date: June 15, 2001
- Estimated Start of Construction September 15, 2001
- Estimated Full Occupancy March 15, 2003