



Good Neighbors

San Diego
Housing Commission

REPORT

ITEM 104

DATE: For the Housing Commission Agenda of February 9, 2001

REPORT NO. HCR 01-020

SUBJECT: Loan For The Acquisition And Rehabilitation Of Coronado Terrace
(Council District 8)

SUMMARY

Issue: Should the Housing Commission recommend Housing Authority approval of a loan in the amount of one million four hundred thousand dollars (\$1,400,000) to The Related Companies, LLC and Wakeland Housing and Development Corp. (Related/Wakeland) for the acquisition and rehabilitation of 312 units located at 1183 25th Street?

Recommendation: That the Housing Commission recommend Housing Authority approval of a loan to Related/Wakeland upon the terms as outlined in this report in the amount of one million four hundred thousand dollars (\$1,400,000) for the acquisition and rehabilitation of Coronado Terrace.

Fiscal Impact: Upon the award of anticipated Federal tax credit funding, \$1,400,000 will be committed to the development.

Affordable Housing Impact: Development of this project will preserve 310 units of affordable housing stock (266 two-bedroom and 44 three-bedroom units) with 100% of the units affordable to very low- and low-income households. Proposed rents range from 50% to 62% of median area income; occupancy of the units will be restricted to households earning 50% and 62% of area median income. The units will be affordable for a term of 55-years. The restricted rents will appear as follows:



A state agency authorized by the City of San Diego

Type	Sq. Ft.	Number Of Units	Restricted Rent (net of Utility allowance)	Market Rate	Savings per unit per month
2 bedroom @50%	860	81	\$603	835	\$232
2 bedroom @60%	860	185	\$724	835	\$111
3 bedroom @50%	1,050	9	\$671	1,100	\$429
3 bedroom @52%	1,050	5	\$698	1,100	\$402
3 bedroom @62%	1,050	30	\$837	1,100	\$263
TOTAL		310			

Community Planning Group: Related/Wakeland presented the proposed development to the Nestor community group on January 10, 2001. Because the project involves acquisition of an existing site, there was no formal action by the planning group. Questions were asked about the future rent levels. There was no opposition to the proposed project.

Equal Opportunity Statement: Related/Wakeland is in compliance with the Housing Commission's Equal Opportunity Programs.

Environmental Review: The project is currently undergoing a review for compliance with the California Environmental Quality Act (CEQA) and the National Environmental Policy Act (NEPA). Approval of the recommendation will be conditioned upon completion of the CEQA/NEPA review. Acquisition and rehabilitation projects are typically exempt from CEQA review, pursuant to Section 15061 (b)(3) of the CEQA Guidelines and categorically excluded from the NEPA pursuant to 24 CFR 58, Section 58.35.

HOME Program Compliance: An acquisition-rehabilitation 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.

Future Related Action: Upon recommendation of the Housing Commission, the Housing Authority will hear this item on February 13, 2001.

BACKGROUND

Related/Wakeland has submitted an application under the Housing Commission's current Notice Of Funding Availability (NOFA). Related is partnering with Wakeland

to acquire and rehabilitate the 312-unit apartment complex, originally developed in 1971, under a HUD Section 236 mortgage and regulatory agreement.

HUD's Section 236 program provided low interest financing in exchange for use agreements that limited rents to affordable levels for 40 years. At year 20 the program permitted owners to prepay the remainder of the 40-year federally assisted mortgage after which the HUD restrictions no longer applied. These properties could then be converted to market rate rental housing potentially displacing low-income tenants. These projects have been labeled "at-risk" because of the expiring federal assistance.

In 1992, the owner of Coronado Terrace could have prepaid the mortgage but instead took advantage of incentives offered by HUD. As a result, the regulatory agreement was amended and a HUD Contract for project-based Section 8 assistance was entered into. The amended regulatory agreement is set to expire in 2012.

It is anticipated that a tax credit limited partnership, Coronado Terrace Preservation, L.P., shall be formed and shall be the ownership entity upon the closing of permanent financing.

The owner/seller of Coronado Terrace is Coronado Associates, a California Limited Partnership. Gersten Construction Company, a California Corporation, is its General Partner.

DISCUSSION

The Borrower

The applicant Related is an affiliate of The Related Companies, L.P., which is one of the largest developers and financiers of multi-family housing in the country. Related specializes in the development and management of housing throughout the State of California. Established in 1989, it has become one of the largest developers of low income tax credit housing in the state, with development or approval of over 5,000 units in California. Its projects range from the redevelopment of obsolete public housing sites in San Francisco and Los Angeles, an award-winning senior project of 100 units in La Mirada, to a comprehensive neighborhood revitalization project in Anaheim.

Wakeland Housing and Development Corporation is a California 501(c)(3) non-profit corporation established in 1998. Between its principals, Wakeland has extensive experience in developing affordable housing with both for profit and nonprofit corporations. Wakeland currently has four new construction projects underway in San Diego, Carlsbad, Poway and National City (912 units), and four acquisition and

rehabilitation projects underway in which Wakeland will serve as Managing General Partner (1,128 units). Wakeland is also the nonprofit partner of Fairfield Residential in the preservation projects formerly known as Mt. Aguilar Apartments and Penasquitos Gardens (816 units).

Both parties, Related and Wakeland, have one previous loan together from the Housing Commission for the Vista Terrace project, a 262-unit preservation project that received approval December 12, 2000.

The applicant's Statement for Public Disclosure and financial statements are included as Attachments 5 and 6.

Staff has reviewed the credit report for Related, the financial guarantor for the proposed project. It is satisfactory and on file at the Housing Commission offices.

Preservation of an At-Risk Affordable Housing Project

Affordable housing projects that are at-risk of conversion in San Diego County have been identified in the City's Housing Element and are a high priority for preservation, with the highest priority given to projects with restrictions expiring in five years or less. Coronado Terrace is one of those listed projects and while its amended regulatory agreement will expire in 12 years, it is a very large project and the ability to preserve it will get more difficult as the expiration date nears.

To minimize the loss of affordable housing, the City has developed and implemented a preservation program that encourages the collaboration of nonprofits, for-profits and local government and identifies federal, state and local financial resources, including local funds, bonds and tax credits.

The financing structure proposed furthers the City's objectives and utilizes California Housing Finance Agency (CHFA) bonds and 4% tax credits along with the Housing Commission loan. A tax credit limited partnership will be formed, Coronado Terrace Preservation, L.P., which will be the ownership entity. Related will serve as the Administrative General Partner and Wakeland as the Managing General Partner.

Site Location/Description

The development consists of 17 two- and three-story garden apartment buildings (312 units) over approximately 14 acres. The unit mix consists of 268 two-bedroom, one-bath units, and 44 three-bedroom two-bath units. On site are an administration office, six laundry rooms, a recreation building, tot lots and a basketball court. The development is located near Coronado Avenue, a major east-west arterial, and has excellent proximity to shopping, schools, and employment.

Bus stops are located on the northern boundary of the site along Coronado Avenue, and the trolley is within one mile of the site.

The units are 30 years old and the buildings are wood-frame construction, with stucco exterior walls and asphalt composition shingle roofs. An environmental Phase I has been performed. Asbestos-containing materials were found but are not in a dangerous condition and can be left in place and monitored as provided under HUD rules. Rents for the units will be at very low- and low- income levels as defined by HUD, with the target rental rates ranging from 50% to 62% of median area income. Seventy-five percent of the units in the development are under HUD's Section 8 program (project-based Section 8). The remaining 25% of the units have rents restricted under the HUD regulatory agreement covering the property. Under the Section 8 program, residents pay no more than 30% of household income toward rent. HUD has contracted to provide Section 8 for this development until 2012, however the contract is renewed on an annual basis. Should HUD not renew the Section 8 contract, the HUD regulatory agreement also terminates.

Rehabilitation

While the property has been well maintained, the structures are thirty years old. The applicant proposes a substantial rehabilitation with a budget of \$4,400,000 to bring the property up to current market standards. The planned amenities include expansion of the existing community center, quiet courtyard improvements, new tot-lots, BBQ and trellis picnic areas and laundry room upgrades. Site improvements include landscaping, hardscape repairs, improved site drainage, site lighting and new project signage. The building exteriors will be repainted and repaired, railings replaced, roofs repaired, water heaters replaced and exterior screen doors installed. Interior upgrades include new kitchens and bathrooms, along with carpeting, hard-wired smoke detectors, ceiling fans, new door hardware, window coverings and electrical switches and outlets. A rehabilitation plan is included as Attachment 7.

Rehabilitation is estimated to be complete by December 2002. The project timeline is shown in Attachment 3.

Relocation

As part of the refinancing and preservation of this original HUD development, HUD will not allow any involuntary relocation of residents, even if their incomes are over 60% of area median income. Of the households receiving Section 8 assistance, there should be no relocation. These households should qualify to remain in the development. The households occupying units with rents restricted by the HUD regulatory agreement should also qualify to remain in the development. Based on preliminary information however, there is the possibility that 18 households may be

over-income. In addition, as rehabilitation is performed on each unit, households will be moved temporarily off site for an estimated three days and two nights. All expenses of this temporary move shall be covered by the applicant and are included in the relocation budget. The applicant has hired Pacific Relocation Consultants to prepare a detailed relocation plan; a budget of \$585,000 has been included for relocation expenses.

Financing Structure

The applicant will be utilizing bond financing with the California Housing Finance Agency (CHFA) as issuer of the bonds. For CHFA multifamily bonds, CHFA is also the credit enhancer. The bonds are backed by CHFA's general obligation, which carries a Standard & Poor's AA- rating. With bond financing, the project automatically qualifies for the allocation of four percent low income housing tax credits as a contribution of project equity.

The Funding Request

Total development costs for the project are \$29,553,621. The proposed financing sources in addition to the requested loan of \$1,400,000 from the Housing Commission include CHFA bond financing in the amount of \$16,500,000 and a CHFA-assumed Interest Reduction Payment of \$1,847,449 (provided from a HUD program for which funds are set aside), income during the rehabilitation period of \$1,300,081, proceeds from the sale of 4% tax credits in the amount of \$7,306,091, and an equity contribution from the developer in the form of a deferred developer fee of \$1,200,000.

The Housing Commission will receive debt service payments on its loan each year in the amount of the lesser of the amortized loan payment, or 75% of cash flow after payment of operating expenses and debt service on the first position note. Beginning in the eleventh year, in the unlikely event there has been a shortfall in payments that were not made up in the preceding years, the Housing Commission loan would be re-amortized to ensure a complete pay-off of the loan within the 55-year term.

Until HUD's project-based Section 8 assistance expires, the project will benefit from HUD's rental assistance. Related/Wakeland will collect rents at HUD's contract level (2-bedrooms presently receive a flat rent of \$698, which is 58% of area median income; 3-bedrooms are a flat rent of \$838, which is 62% of area median income). Households, however, pay no more than 30% of their income toward rent as provided under Section 8 regulations. Upon expiration of the HUD contract, all rents no longer HUD-restricted will revert to the Housing Commission rents set forth in the Housing Commission's Declaration of Covenants and Restrictions.

The appraised value of the development "as is" is \$18,500,000. The value after rehabilitation at stabilized occupancy is \$23,500,000. This compares favorably with a purchase price of \$18,000,000 and a rehabilitation investment of \$4,400,000 for a total of \$22,400,000. The loan-to-value including the Housing Commission's loan is 84%. This loan-to-value is achieved due to the large equity contribution provided by tax credit financing.

The Financial Plan

Total Development Cost: The total development cost is \$29,553,621

Appraised Value: An estimated value at stabilized occupancy after rehabilitation is \$23,500,000. The loan-to-value ratio including the Housing Commission loan is 84%.

Security: The Commission's loan will be junior to CHFA's lien(s) in the total amount of \$19,747,449, secured by a CHFA deed or deeds of trust. The order of lien priority shall depend on the number of instruments used by CHFA to secure this indebtedness. Prior to permanent financing, the Commission's loan will be subordinate to a construction loan until rehabilitation is complete, and a HUD 241(f) loan until it is paid off at year 3.

Debt Service Ratio: The debt service ratio on the first trust deed is 1.10 in year one.

First Trust Deed: CHFA bond financing will be in the approximate amount of \$16,500,000, with a term of 30 years and an interest rate estimated at 6.25%; the CHFA IRP portion in the amount of \$1,847,449, has a term of 10 years and an interest rate of 5.25%. The CHFA IRP financing is unique to preservation projects such as this. It represents a lien against the property, however no debt service is required as HUD makes all payments toward this portion of the financing from set-aside funds.

Junior Trust Deed:	Housing Commission funds of \$1,400,000 at 3% interest, amortized over 55 years. The ultimate lien position of the Commission's loan will be determined by the number of instruments CHFA uses to secure its senior financing. At some point in time, the Commission's deed of trust could be in fourth position; however, as stated above, the total dollar amount of liens ahead of the Commission's loan will not increase.
Payments on the Junior Trust Deed:	Debt service on the Housing Commission's loan will be the lesser of the amortized payment or 75% of cash flow after payment of operating expenses and debt service on the first position note. The year one debt service payment is estimated at \$52,009.
Rent Restrictions:	A Declaration of Covenants and Restrictions with a 55-year term will be recorded against the property, restricting rent levels at 50% to 62% of area median income. Two units will be set aside as manager units. This Declaration will be recorded in a position junior to all of the CHFA deeds of trust and the HUD regulatory agreement.
Occupancy Restrictions:	Occupancy of 310 units will be restricted to households earning no more than 50% or 62% of area median income.
Recourse:	The loan will be non-recourse upon the timely completion of rehabilitation, in accordance with the Housing Commission's lending policy for tax credit projects.
Management Plan:	A Management Plan will be submitted for approval.
Operating Expense:	Operating expense is projected at \$305 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

Loans to tax credit projects become non-recourse upon the completion of construction. 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 Housing Commission loan will be subordinate to a construction loan during rehabilitation. Normally, following the end of construction, the Commission's deed of trust moves to second position. For this loan, however, the Commission's deed will remain behind a HUD 241(f) loan for another three years. Because the Housing Commission requires that it retain foreclosure rights, the applicant will purchase title insurance over the HUD loan that in effect removes this encumbrance to the Housing Commission's loan. Under this arrangement, the Commission enjoys rights as though the 241(f) loan were not on title.

In addition, there is the senior CHFA financing that may take the form of one or more note(s) and deed(s) of trust. Because CHFA will not know the number of instruments it must use until its closing with HUD, this report is specifying the aggregate lien dollar amount to which the Commission loan will be subordinate. The number of instruments used by CHFA will determine the actual lien priority, but the dollar amount of senior debt will remain unchanged.

As the remnants of HUD financing on this project are either retired or expired, the Housing Commission rent restrictions take over and become the permanent affordability out to year 55, which is 25 years beyond the remaining CHFA debt.

The proposed Housing Commission loan is only 5% of the total development costs of this project. The Commission's loan is fully amortized with regular debt service payments and the loan to value achieved is 84%. Staff therefore recommends approval of this loan request.

ALTERNATIVE

Decline to approve this loan. Without this gap financing, Related/Wakeland would most likely not be able to complete the purchase and preserve the affordability of

these units. Another purchaser would be able to raise rents to market levels upon expiration of the regulatory agreement in 2012, and could raise 5% of the units to market level under current restrictions.

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/VistaTLC.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. Rehabilitation Plan*
 8. Appraisal Summary Letters*

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

ATTACHMENT 2

Project Development Summary

January 17, 2001

Name: Coronado Terrace Apartments
Location: 1183 25th Street, San Diego, CA 92154
Description: Rental housing for very low income residents
Sponsor: Related Companies, LLC and Wakeland Housing and Development Corp.

Unit Affordability

Total # of units: 312
Assisted units: 310

Restricted rents:

Type	Sq. Ft.	Number Of Units	Restricted Rent (net of Utility allowance)	Market Rate	Savings
2 bedroom @50%	860	81	\$603	835	\$232
2 bedroom @ 60%	860	185	\$724	835	\$111
3 bedroom @50%	1,050	9	\$671	1,100	\$429
3 bedroom @52%	1,050	5	\$698	1,100	\$402
3 bedroom @62%	1,050	30	\$837	1,100	\$263
TOTAL		310			

Market rent: None. Two units are reserved as managers' units.

Affordability: 55 years

Development Cost

Total development cost: \$29,553,621
HC development cost: \$1,400,000 (maximum)
Total development cost per unit: \$94,723
HC cost per (restricted) unit: \$4,516
Subsidy per (restricted) bedroom @ 668 BR's: \$2,096

Sources of Funds

CHFA (Bonds & IRP)	\$19,747,449	(30-year amortization)
Housing Commission Loan	\$ 1,400,000	(55-year amortization)
Equity – Net Operating Income	\$ 1,300,081	

Equity – 4% Tax Credit Proceeds	\$ 7,306,091
Equity-Deferred Developer Fee	\$ 1,200,000

Estimated Value At Completion: \$23,500,000

Pro Forma Summary

Estimated annual income:	\$2,478,611	(Year 1)
Estimated annual expense:	\$1,141,377	(Year 1)
Net Operating Income	\$1,337,234	
Tax-exempt annual debt service	\$1,219,120	(1.07 ratio for Year 1)
Housing Commission debt service	\$ 52,009	fully-amortized payment
Residual Receipts to Owner	\$ 66,108	

ATTACHMENT 3

DEVELOPMENT TIMELINE

- January 23, 2001 - Loan Committee Meeting
- February 9, 2001 - Housing Commission Meeting
- February 13, 2001 - Housing Authority Meeting
- February 21, 2001 – CDLAC Application
- April 30, 2001 – Notification of Bond Allocation
- July 31, 2001 - Bond Closing, Acquisition
- August, 2001 – Start of Rehabilitation
- December, 2002 – Completion of Rehabilitation