



Good Neighbors

San Diego
Housing Commission

REPORT

ITEM 103

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

REPORT NO.: HCR01-024

SUBJECT: Loan for New Construction of Torrey Del Mar Apartments
(Council District 1)

SUMMARY

Issue: Should the Housing Commission increase its loan commitment to BRIDGE Housing Corporation - Southern California (BRIDGE) from \$245,000 to \$910,000 under a restructured financing plan to construct a 112-unit rental housing development for low income families?

Recommendation: That the Housing Commission recommend Housing Authority Approval of a three percent residual receipts loan of \$910,000 to BRIDGE for financing of a 112-unit rental housing development located in Torrey Highlands, the Subarea IV Planned Urbanized Area.

Fiscal Impact: Upon award of anticipated federal tax credits and State MHP funding, \$910,000 would be committed to the development.

Previous Related Action: Torrey Del Mar Apartments received Housing Commission approval of a residual receipts loan of \$245,000, for gap financing, on February 25, 2000. The development did not receive an allocation of nine percent tax credits in 2000.

Future Related Action: If approved, the recommendation related to this issue will be submitted to the Housing Authority for consideration.

Affordable Housing Impact: Approval of the recommendation would allow BRIDGE to implement its plans to provide 112 units of rental housing affordable to families earning between 30 percent and 60 percent of California Median Area Income (MAI). Rents for all of the units would average approximately 60 percent below market.

Unit Size	No. of Units	Rent Levels @ Percent of CA-MAI	Occupancy @ Percent of CA-MAI	Restricted Unit Rent Savings Annually
1 bedroom	8	30% - 45%	30% - 45%	\$ 67,392
2 bedrooms	25	30% - 45%	30% - 45%	\$257,304
3 bedrooms	18	30% - 45%	30% - 45%	\$228,888
1 bedroom	8	60%	60%	\$ 42,720
2 bedrooms	31	60%	60%	\$203,856
3 bedrooms	22	60%	60%	\$184,272
Total	112			\$984,432

HOME Program Compliance: A loan to a nonprofit corporation for construction of multi-family rental housing is an eligible activity under the HOME Program. The proposed rents are below HOME guidelines. Of the 112 units, 51 would be assisted by the Commission participation. Of the assisted units, 45 would be designated as HOME-funded units.

Environmental Review: The City Council certified Mitigated Negative Declaration No. 98-0250, for Torrey Del Mar Apartments, pursuant to the California Environmental Quality Act (CEQA). Approval pursuant to the requirements of the National Environmental Policy Act (NEPA) is expected.

BACKGROUND

BRIDGE applied for a loan in response to a Commission Notice of Funding Availability (NOFA #99-04) for the development of affordable housing. The proposed development would meet the inclusionary housing obligation of D.R. Horton, the owner and developer of the Torrey Del Mar Planned Residential Development. The financing plan includes donation of land by D.R. Horton, who transferred title to the Torrey Del Mar Apartments site to BRIDGE for the total consideration of one dollar. The property was appraised at \$2,800,000 on March 3, 2000.

Torrey Del Mar Apartments would be located on a 6.7-acre parcel within the 176-acre Torrey Highlands Subarea IV of the Planned Urbanized Area previously known as the North City Future Urbanizing Area. Torrey Highlands Subarea IV has a 20 percent inclusionary housing requirement which mandates construction of dwelling units affordable to households earning no more than 65 percent of MAI. Because the proposed development would receive a density bonus, it is required to provide units affordable at 60 percent or less of MAI.

DISCUSSION

The Borrower

BRIDGE - Southern California is a 501(c)(3) nonprofit corporation. Its parent organization, BRIDGE Housing Corporation, formed in 1983 to “build and maintain large volumes of extremely high quality housing at exceptional affordable prices.” Based in San Francisco, BRIDGE Housing Corporation participated in the development of approximately 8,000 homes throughout California. The operations of the Southern California entity are supported and monitored by the parent organization.

Although BRIDGE - Southern California has developed over 1,000 units since its inception in 1994, Torrey Del Mar Apartments would be its first development in the City of San Diego. BRIDGE - Southern California’s financial statements were reviewed by staff and found to be satisfactory. (See Applicant Financial Statements - Attachment 6.)

BRIDGE’s development activities in Southern California are supervised by Mr. Brad Wiblin, its Senior Project Manager. Prior to joining BRIDGE, Mr. Wiblin worked as a land planner, urban designer, and development consultant. Since joining BRIDGE in 1994, Mr. Wiblin has participated in the development of over 400 units of affordable housing in Southern California.

BRIDGE Property Management Company (BPMC) is a financially independent 501(c)(3) nonprofit corporation established in 1988 to provide property management for BRIDGE’s developments. BPMC’s staff includes experts in marketing, regulatory, and logistical issues related to the operation of affordable housing. BPMC currently manages approximately 4,700 rental and condominium units. BRIDGE would contract with BPMC for property management services at Torrey Del Mar Apartments. BPMC would operate a computer room and tutoring program at Torrey Del Mar Apartments as part of its commitment to community service.

The Development

The Torrey Del Mar Planned Residential Development consists of 320 market rate units and the 112-unit Torrey Del Mar Apartments, for a total of 432 dwellings. Of the 432 units, only Torrey Del Mar Apartments would be rented at 60 percent or less of MAI.

California Housing Finance Agency (CHFA) and California's Multifamily Housing Program (MHP) require affordability under the State standard, which is approximately 101 percent of the HUD-published Area Median Income (AMI). A two-bedroom unit and a three-bedroom unit would be made available for occupancy by income-qualified resident managers. Of the 112 units, 51 (46% of the units) would be affordable and restricted to households with incomes at or below 45 percent of MAI.

BRIDGE's CHFA application requires affordability of all 112 units. Of these apartments, 40 would be three-bedroom units, 56 would be two-bedroom units, and 16 would be one-bedroom units. Of the Planned Residential Development's 320 market rate dwellings, 52 are designated as very low density. D.R. Horton met the City's affordability requirements for the low density development by paying an in-lieu fee. All remaining affordability requirements would be satisfied by 54 units of Torrey Del Mar Apartments, leaving a surplus of 58 units that could be sold to other Torrey Highlands developers to help satisfy their affordable housing requirements. Sale of the excess units would not affect the security of the Commission loan or the affordability restrictions imposed.

The subject property is located at 13878 Carmel Valley Road near Highway 56, approximately four miles east of Interstate 5. The development site is bordered on the south by Carmel Mountain Road and Deer Canyon, to the east by Rancho Penasquitos, and to the north by Black Mountain Ranch. Primary development frontage, including the main entry, would be on Carmel Mountain Road. (See Location Map - Attachment 1.)

The design of Torrey Del Mar Apartments includes seven two-story residential buildings, one community building, a swimming pool, a picnic area, and a tot lot. Parking and vehicular circulation outline the larger residential space, with 228 parking spaces provided. The community building would be the heart of the development and would open onto the recreational area. It would include the management and leasing office, a large meeting space with a kitchen, laundry facilities, and restrooms. The meeting space could be used for resident meetings, parties, a foul weather play area, and other resident activities.

The plan for the Torrey Highlands Subarea IV includes 2,600 housing units, a community center, a regional employment center, two 5-acre parks, schools, (the development is served by the Poway Unified School District), a public transportation center, hiking trails, and a regional wildlife corridor. Part of the Multiple Species Conservation Preserve (MSCP) lies within the area. There will be pedestrian access to a retail center with a gas station and grocery store. City of San Diego Transit-Oriented Design Standards will be implemented to reduce

resident dependency on private automobiles and encourage the use of other forms of transportation. The development received the approval of the Penasquitos Community Planning Group on September 1, 1999. (See the Development Timeline - Attachment 3.)

The Funding Request

Torrey Del Mar Apartments would be financed primarily by MHP, tax exempt bonds, and four percent low-income housing tax credits. Adopted on August 28, 2000, MHP assists new construction, rehabilitation and preservation of permanent and transitional housing for low income households through deferred payment loans.

BRIDGE would create a wholly-owned and controlled nonprofit subsidiary to develop and operate Torrey Del Mar Apartments as a managing general partner in a limited partnership with a tax credit investor. The tax credit investor would obtain 99 percent ownership interest and 99 percent of the resulting tax benefits. The limited partnership would be the owner and borrower; Torrey Del Mar Apartments would be its only asset.

The developer's master plan assumes no financial participation by the Housing Commission for meeting the minimum affordability target because land-use restrictions require the affordability. BRIDGE is requesting Commission participation in buying down development affordability below the level required by the Future Urbanizing Area because, to compete effectively for MHP funds, BRIDGE would restrict rents and incomes for 35% (39) of the units to no greater than 30% of MAI and 11% (12) of the units at no greater than 45% of MAI.

The following is an outline of the proposed rent buy-down for Torrey Del Mar Apartments:

Rents @ % of MAI	1-bedroom units	Rent	Rent @ 60% MAI	Monthly Per-Unit Buy-down	Annual Rent Buy-down
30%	6	\$274	\$566	\$292	\$21,024
45%	2	\$414	\$566	\$152	\$ 3,648
Total Yearly Rent Buy-down of 1-bedroom Units					\$24,672
Rents @ % of MAI	2-bedroom units	Rent	Rent @ 60% MAI	Monthly Per-Unit Buy-down	Annual Rent Buy-down
30%	19	\$323	\$673	\$350	\$79,800
45%	6	\$491	\$673	\$182	\$13,104
Total Yearly Rent Buy-down of 2-bedroom Units					\$92,904

Rents @ % of MAI	3-bedroom units	Rent	Rent @ 60% MAI	Monthly Per-Unit Buy-down	Annual Rent Buy-down
30%	14	\$362	\$767	\$405	\$68,040
45%	4	\$557	\$767	\$210	\$10,080
Total Yearly Rent Buy-down of 3-bedroom Units					\$78,120

Number of Units to Buy-down from 60% MAI	Total Annual Buy-down
51	\$195,696

The Housing Commission's total development cost for 51 units would be \$910,000 (approximately \$17,843 per unit). The developer's total development cost is estimated at \$18,512,061 (approximately \$165,286 per unit), which includes the \$2,800,000 land contribution from D.R. Horton. The largest portion of the finance package, estimated to be \$5,618,437, would come from the sale of four percent tax credits. BRIDGE also expects to finance the proposed development with approximately \$3,860,000 of tax-exempt and taxable bonds through the California Housing Finance Agency (CHFA), a \$4,272,300 deferred loan from the State's Multifamily Housing Program (MHP), and a \$499,000 forgivable loan from the federal Affordable Housing Program (AHP). The Commission would be prepared to subordinate to the other lenders as necessary. Total developer equity (including the land donation) is estimated to be \$3,352,324.

The Financial Plan

Total Development Cost: The estimated total development cost is \$18,512,061 including the value of the land, construction, interest costs, builder overhead and profit, builder fees, and a developer fee.

Cost per Unit: The estimated cost per unit is \$165,286, which includes the community areas.

Appraised Value: The "as-is" value of the raw land is appraised a market value of \$2,800,000. An "as-built" appraisal has not been performed. Release of Housing Commissions funds would be conditioned upon agency receipt of a satisfactory "as-built" appraisal.

Loan Amount:	The requested loan would leverage \$910,000 against \$17,602,061 expected from other sources.
Security:	The Commission loan would be secured by a fourth position trust deed recorded against the property.
Rent Restrictions:	A Declaration of Covenants, Conditions, and Restrictions with a 55-year term of affordability would be recorded against the property.
Occupancy Restrictions:	Occupancy of 112 units would be restricted to households earning no more than 60 percent of Median Area Income as determined by the State. A restriction limiting occupancy of 39 units to households earning 30 percent or less of MAI, occupancy of 12 units to households earning 45 percent of MAI, and 61 units to 60 percent of MAI would be recorded against the property.
First Trust Deed:	A 30-year, fully-amortized, 5.9 percent interest loan from CHFA.
Second Trust Deed:	A 30-year, 3 percent interest deferred loan from MHP.
Third Trust Deed:	A 30-year, 3 percent interest, forgivable loan from AHP.
Fourth Trust Deed:	A 55-year, 3 percent interest, residual receipts loan from the Housing Commission.
Payments on the Housing Commission Loan:	Payment of 30% of residual receipts would be allocated to the owner; 70% to soft money lenders. Payments to the Commission would be proportionate to the percentage of soft money in the total development cost. A

minimum payment of \$5,533 would begin at the end of the third calendar year following completion.

- Recourse: There would be initial recourse against BRIDGE. The loan would become non-recourse upon creation of the limited partnership for tax credit syndication.
- Management Plan: BRIDGE will submit a management plan for staff approval.
- Operating Expense: Monthly operating expense is projected at \$300 per unit.
- Replacement Reserves: A State requirement of \$49,548 per year / \$442 per unit.
- Pro Forma Assumptions: Income increase projected at 2.5 percent per year; expense increase projected at 3.5 percent per year; and vacancy projected at 5 percent per year.

Risks and Mitigation

Loans to tax credit developments become non-recourse upon the creation of a limited partnership for tax credit syndication because of Internal Revenue Service regulations that make the investment undesirable if structured otherwise. The conventional first position loan would be non-recourse for the same reason. This would limit the Commission's ability to recover funds because the encumbrance would be only on the property and not the other assets of the developer. This risk is typically taken by the Commission for tax credit-financed developments, and is deemed mitigated by conservative underwriting assumptions.

The Commission loan would be contingent upon BRIDGE receiving the other financing. Representing less than six percent of the project's total estimated development cost, the Commission's maximum loan of \$910,000 would be a relatively low risk investment. Although an as-built appraisal has not yet been performed, it is very likely that significant developer equity would result in a favorable loan-to-value ratio. Also, BRIDGE is an experienced developer with a track record of timely completions within budgets.

ALTERNATIVE

The Housing Commission could approve a recommendation of less than the proposed \$910,000. The Housing Commission could also decline loan approval. Although the developer may be able to pursue development without Commission participation, other lender commitments, and their attending deep affordability, are based on BRIDGE securing gap funding from the Commission. A decision to not approve the loan, or to loan a lesser amount, could result in the withdrawal of the proposal and possible loss to the City of 112 units of affordable rental housing, including 51 units affordable to households earning 45 percent or less of Median Area Income.

Submitted by,

Pat Duplechan
Director, Housing Programs

Attachments:

1. Location Map
2. Project Development Summary
3. Development Timeline
4. HC Development Form
5. Developer's Disclosure Statement
6. Applicant Financial Statements

**Signature on File
With Original Document**

Approved by,

Elizabeth C. Morris
Chief Executive Officer

ATTACHMENT 2

Development Summary January 24, 2001

Name: Torrey Del Mar Apartments
Location: Torrey Highlands
Description: Rental housing for low income families
Sponsor: BRIDGE Housing Development Corporation - Southern California

Unit Affordability

Total # of units: 112
Assisted units: 51
Restricted rents: 1-bedroom units @ \$274 to \$566
2-bedroom units @ \$323 to \$673
3-bedroom units @ \$362 to \$767
Market rent: 1-bedroom units @ \$1,011
2-bedroom units @ \$1,221
3-bedroom units @ \$1,465
Percent of MAI: 30% to 60% of Median Area Income as determined by the State
Affordability: 55 years

Development Cost

Total development cost: \$18,512,061
HC development cost: \$ 910,000
Total development cost per unit: \$ 165,286
HC cost per unit (51 units): \$ 17,843
HC subsidy per bedroom @ 112 br's: \$ 8,125

Sources of Funds

Low Income Housing Tax Credits \$5,618,437
California Housing Finance Agency \$3,860,000
Multifamily Housing Program \$4,272,300
Affordable Housing Program \$ 499,000
San Diego Housing Commission \$ 910,000
Developer equity and land donation \$3,352,324

Pro Forma Summary

Estimated net annual income: \$ 722,258 (year 1)
Estimated annual expense: \$ 403,604 (year 1)
Annual debt service: \$ 274,741 (1.16 ratio in year 1)
Estimated residual receipts: \$ 43,914 (year 1)
Est. cumulative residual: \$1,042,558 (year 15)

ATTACHMENT 3

Torrey Del Mar Apartments DEVELOPMENT TIMELINE

February 9, 2001	Loan to the Housing Commission for approval
February 27, 2001	Loan to the Housing Authority for approval
June 1, 2001	Construction Loan Closing
June 22, 2001	Start of Construction
June 22, 2002	Certificate of Occupancy
August 22, 2002	Complete Occupancy / Stabilization
September 22, 2002	Permanent Loan Closing