



Good Neighbors

San Diego
Housing Commission

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REPORT

DATE: For the Agenda of March 23, 2001

ITEM 109

REPORT NO: HCR01-043

SUBJECT: Provision of First Time Homebuyer Opportunities at the Summit Crest Apartments Located at 4328-4490 Mayberry Street (Council District 4)

SUMMARY

Issue: Should the Housing Commission recommend that the Housing Authority approve the sale of the 70-unit Summit Crest Apartments, a multifamily rental property on which the Housing Authority has a \$670,000 loan, for the purpose of converting the property to for-sale condominiums?

Recommendation: That the Housing Commission recommend Housing Authority approval of the sale of the property with the requirement that 28 units be sold to first time homebuyers earning a maximum of 65% of the Area Median Income (annual income of \$34,900 for a family of four), and that the Homeowners' Association retain a professional property management company.

Fiscal Impact: The transaction will require no new funds from the Housing Commission. The existing Housing Commission loan of \$670,000 will convert to shared equity loans for first time homebuyers on 28 of the units. Shared equity loans are due upon resale of the individual homes.

Affordable Housing Impact: Currently, 28 of the 70 units in the project are set-aside for occupancy by low-income renters. Of that total, 30 percent, or 21 units, are reserved for households earning 60 percent or less of the area median income (\$32,220 for a family of four). The remaining ten percent of the units, 7 units, are set aside for occupancy by low-income tenants earning 50 percent or less of the area median income (\$26,850 for a family of four). Under the conversion to homeownership proposal, the twenty-eight restricted units will be reserved for families earning no more than 65 percent of the area median income (\$34,900 for a family of four). The proposed purchaser of the property,



San Diego Community Housing Corporation (SDCHC), will work directly with current residents on “first right” to purchase options.

HOME Program Compliance: The HOME regulations, at 24 CFR 92.255, permit the owner of HOME-assisted rental units to convert to homeownership units by conveying the units to the existing tenants to enable the tenants to become homeowners.

Previous Related Actions: In March of 1999, the project’s developers borrowed \$670,000 from the Housing Commission to cover a portion of the acquisition cost. In order to replace the interim financing of the Summit Crest Apartments as a multifamily rental project, the Housing Authority and City Council have approved a bond Inducement and TEFRA resolution, respectively. An application for bonding authority has been submitted to the California Debt Limit Allocation Committee. The application will be withdrawn should the recommended actions take place.

Future Related Action(s): Should the proposal of converting the project from a rental housing to home ownership be approved, no further actions of the Housing Commission or Housing Authority will be required. In the event the proposal is denied, specific authorization to issue bonds for the permanent rental housing financing of the project will be sought from both the Housing Commission and the Housing Authority at future dates.

BACKGROUND

In March of 1999, the project’s developers, the Zures Companies, represented by Jim Neil, and Merit Housing, represented by Linda Boone, borrowed \$670,000 from the Housing Commission to cover a portion of the acquisition and rehabilitation cost. At the time, it was envisioned that permanent bond financing would be sought in order to rent units to low-income families. Zures Companies is a private company located in San Diego and Merit Housing is a non-profit located in Orange County. Following the Housing Commission’s requirements at the time of the loan, substantial rehabilitation has been performed on the project.

The property consists of 70 units (35 2-br/1.5ba, 35 3-br/1.5ba) located at 4328-4490 Mayberry Street in Council District 4. The property consists of 18 two-story buildings configured as townhouses and is situated on a 3.02-acre site. All units have been rehabilitated and provide refrigerators, washer & dryer hook-ups and a fenced patio. The property is located close to downtown, major highways, city buses, shopping and hospitals. It also is situated a few blocks away from the

Educational Cultural Complex, which provides job training, and also serves as a sports park complex and senior center. A project location map is included as Attachment 1.

Twenty-eight units in the project are currently set-aside for occupancy by low-income renters. Of that total, 30 percent, or 21 units, are reserved for households earning 60 percent or less of the area median income (\$32,220 for a family of four). The remaining ten percent of the units, 7 units, are set aside for occupancy by low-income tenants earning 50 percent or less of the area median income (\$26,850 for a family of four).

DISCUSSION

The original development consisted of 118 condominium homes. The first phase was built in 1981 and sold as owner occupied homes. The second phase of 70 homes (Summit Crest) was built in 1984 and has been maintained as rentals. As stated above, the Housing Commission facilitated acquisition and rehabilitation of the rental portion in 1999, and permanent financing is currently being pursued.

SDCHC has proposed a purchase of Summit Crest in order to convert the property to home ownership. SDCHC was founded in 1994 as a California tax-exempt housing and community development corporation. SDCHC has developed more than \$8 million of homeownership projects in San Diego. A Developer's Disclosure Statement is included as Attachment 2. SDCHC has also borrowed Housing Commission funds for acquisition and rehabilitation of the 145-unit Mountain View Estates Apartments.

The proposed Housing Authority role in the transaction would be to reassign the existing \$670,000 loan to 28 individual shared equity homeownership loans to families earning no more than 65 percent of the Area Median Income (\$34,900 annual income for a family of four). The principal repayment of each individual shared equity loan is due upon resale of the property. Attachment 3 is a copy of SDCHC's proposal, which includes a project proforma.

The proposed rehabilitation includes upgrades, as needed, to units such as new window and floor coverings, new appliances, more extensive landscaping and other exterior enhancements for marketing of the complex.

The following table depicts the current restricted rents and the corresponding costs of homeownership:

Summit Crest Condominium Conversion

Type	Square Footage	Current Restricted Rents	Monthly Mortgage Payment*
2 Bedroom @ 50% MAI	840	\$561	n/a
2 Bedroom @ 60% MAI	840	\$618	n/a
2 Bedroom @ 65% MAI	840	n/a	\$820
3 Bedroom @ 50% MAI	1009	\$600	n/a
3 Bedroom @ 60% MAI	1009	\$691	n/a
3 Bedroom @ 65% MAI	1009	n/a	\$886

***Assumptions:**

- (a) Sales price of \$122,500 for two-bedroom units and \$133,500 for three-bedroom units.
- (b) Buyer obtains a loan at 75% of the sales price amortized over 30 years at 7% interest.
- (c) Monthly payment includes principal and interest, property taxes, property insurance, and homeowner's association fees.

SDCHC will work directly with current residents on "first right" to purchase options. Current renters will be given first opportunity to purchase their own unit before anyone else does. In the event renters are not able to, or do not choose to become homeowners, SDCHC will provide comparable rental housing at one of their other sites. Pacific Relocation Consultants, in a March 16, 2001 letter (see Attachment 4), have affirmed SDCHC's plans should permanent displacement of tenants occur.

The timeline of the proposed transaction:

Acquisition Closing	April 26, 2001
Conversion/Rehabilitation	September 2001 to January 2002
Department of Real Estate/Condo Plan	January 2002
Homebuyer Education & Counseling	May 2001 to Project Completion
Phase I Sale & Lease to Own Program	February 2002

RISKS AND MITIGATIONS

The sale of the condominiums could take longer than projected. In that event, the 28 restricted rental units will remain restricted until their sale to qualified buyers.

ALTERNATIVE

Do not recommend approval of the conversion of the project from rental to homeownership. The project will remain as a multi-family rental complex with 28 of the units affordable to families earning at or below the 60 percent of Area Median income level.

Respectfully submitted,

Pat Duplechan
Director, Housing Programs

Approved by,

Elizabeth C. Morris
Chief Executive Officer

**Signature on File
With Original Document**

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- Attachments:
1. Project Location Map
 2. Developer's Disclosure Statement*
 3. Proposal of SDCHC
 4. Letter from Pacific Relocation Consultants

* Distribution of the attachment is limited. A copy is available for review at the Housing Commission office.