



Good Neighbors

San Diego
Housing Commission

REPORT

DATE: For the Agenda of April 20, 2001

ITEM 105

REPORT NO.: HCR01-052

SUBJECT: Revising Loan Terms to St. Vincent De Paul Management, Inc., for Construction of the Emporium Apartments (Council District 8)

SUMMARY

Issue: Should the Housing Commission approve a change to the sources and uses, number of units and rent levels that were proposed for the construction of the Emporium Apartments, to be located at Imperial Avenue between 16th and 17th Streets?

Recommendation: It is recommended that the Housing Commission approve the changes to the Emporium Apartments project proposal as outlined in this report, contingent upon the receipt of nine-percent tax credit financing.

Fiscal Impact: No new funding is requested. Funding for this project has been allocated as follows:

Certificate No.:	01-092
Amount:	\$2,000,000 HTF loan
Revenue Source:	Housing Trust Fund
Division:	Housing Finance and Development
Line Item:	Loans

Affordable Housing Impact: With this action, rents would change from 33%-45% median area income, to 39%-49% median area income. Development of this project will add 90 units to the affordable housing stock (five one-bedroom and eighty-five studio units). One unit will be set aside for a Manager with the remaining 89 units affordable to very low-income households. Proposed rents range from 39% to 49% of median area income; occupancy of the units will be restricted to households earning a range of 40% to 50% of area median income. The units will be affordable for a term of 55-years.



Community Planning Group: The Emporium Apartments was presented to the East Village Community Group on October 12, 2000, and received a unanimous vote of support.

Equal Opportunity Statement: SVDP Management is in compliance with the Housing Commission's Equal Opportunity Programs.

Environmental Review: This project is within the jurisdiction of the Centre City Development Redevelopment area. Review and approval of a Centre City Development Permit are required, during which time an Environmental Secondary Study is prepared by CCDC in accordance with the Master and Supplemental Environmental Impact Reports (MEIR/SEIR) for the Community Plan and Planned District Ordinance. During environmental review, it was revealed that a corner of the project site was located above an earthquake fault. Redesign to mitigate this impact has occurred. The Mitigation Measures listed in the MEIR/SEIR will be applied to the project.

Previous Related Action: The Housing Commission recommended a \$2,000,000 loan to SVDP Management on October 10, 2000 (HCR00-099); the Housing Authority approved the loan on November 14, 2000.

Future Related Action: The recommendation of the Housing Commission will be scheduled for Housing Authority approval at the next available meeting.

BACKGROUND

SVDP Management submitted an original application under the Housing Commission's current Notice Of Funding Availability (NOFA), requesting a loan of \$2,000,000 to build 95 apartment units on several contiguous lots along Imperial Avenue between 16th and 17th Streets in downtown San Diego. SVDP Management currently owns the lots.

The project proposal anticipated nine-percent tax credit financing in addition to the proposed Housing Commission loan, a loan from SVDP, and a land donation from SVDP. No conventional financing is proposed for the project.

Since the project was approved, it has proceeded through the development review process to obtain a development permit in the City's Centre City Redevelopment Area. During this process, several major design changes occurred which increased the total development cost. As a result, five units have been eliminated, a parking garage has been added, rents have increased from a maximum of 45% area median income to a

maximum of 50% median area income, and development costs have increased by approximately \$3.1 million dollars.

Also during this review period, the State Tax Credit Allocation Committee (TCAC) announced a single funding round for the year instead of the two round process previously advertised. Therefore, the application date for 9% tax credits is now June 15, 2001, instead of the previous March, 2001, date.

This report will summarize the changes that have occurred to the project as well as the financing structure. The amount of the Commission loan request remains the same at \$2,000,000. The original report to the Commission is shown in Attachment 2.

DISCUSSION

Project Description

The proposed 95-unit complex has been reduced to 90 units, with an underground parking garage and a sixth story added to the building. Two issues prompted the design changes. The reduction in units was due to required earthquake mitigation. A secondary environmental study revealed an earthquake fault near a portion of the residential units. These units were removed from the plan, and the balance of the units redesigned to a mix of mostly studios so that the number of persons that could be served would not be dramatically impacted. Additional onsite parking was also required, bringing the total number of spaces on site from 6 to 21 parking spaces. Additional parking spaces will be shared with Village Place, which is immediately next door to the site. A parking variance will be obtained for shared parking, as part of the development permit process.

The ground floor of the site will still house commercial and retail businesses. All units will have private kitchens and baths and are designed to provide easy access to common areas. Six of the units will be fully accessible, with specially equipped bathrooms and kitchens along with provisions for sight- and hearing-impaired devices. One unit will be reserved as a manager's unit.

The unit mix has changed from 52 one-bedroom units (one is unit reserved as a manager's unit), and 43 studio units, to five one-bedroom units (one unit is reserved as a manager's unit), and 85 studio units. Instead of target rental rates ranging from 33% to 45% of median area income, they now range from 39% to 49% of median area income to support the increased development costs. See the unit mix comparison shown in Attachment 3.

The target population remains unchanged as homeless adults with disabilities, including mentally ill and chronic alcohol and drug abusers. Residents of Emporium Apartments will receive essential supportive services necessary to allow them to remain housed, stable and optimally self-sufficient.

The revised project timeline is shown in Attachment 4 with an estimated construction start December 2001, with completion and occupancy by October 2002.

Relocation

No relocation is anticipated, as the project site is owned by SVDP. The one remaining parcel in escrow is a single-family home that is owner occupied.

The Financing Plan

Total development costs for the project are now \$10,242,507, as a result of design changes. This is an increase of \$2.3 million. The total development cost per unit increases from \$83,427, to \$113,806. The Commissions cost per restricted unit increases from \$21,277, to \$22,472.

The proposed financing sources include equity from the sale of nine percent tax credits in the amount of \$7,547,037, an Affordable Housing Program (AHP) loan in the amount of \$500,000, SVDP Management equity in the form of a land donation in the amount of \$410,000, and a loan from Centre City Development Corporation (CCDC) in the amount of \$800,000. A Housing Commission loan in the amount of \$2,000,000 is still proposed for the balance of financing required. No conventional financing is proposed. For a summary of total project changes, see Attachment 5.

The Housing Commission loan is still in first position, with a three percent simple interest rate and a term of 55 years. The first year net operating income is estimated at \$108,134. Debt service payments will equal the greater of 50% of net operating income, which in year one is estimated to be \$54,067, or \$27,034 (the minimum payment, which is equal to one-half the estimated debt service payment at year one). The balance of net operating income will be split with 30% going to CCDC to pay down their loan, and 20% to SVDP Management.

The estimated loan to completion value, which includes the Commission's loan, the AHP loan and the CCDC loan, is 54% (down from 62%).

Staff is recommending that the project changes outlined in this report be recommended for Housing Authority approval. While total development costs have increased, additional sources of financing are identified, resulting in a better leverage of Housing Commission funds. Without a conventional loan ahead of the Housing Commission's loan, the Commission's risk is substantially less than it would be otherwise. The loan is still conditioned upon receipt of 9% tax credits.

ALTERNATIVE

If the Commission desires to retain the original lower rents, cash flow from the project would be reduced, and would correspondingly reduce the debt service payment to the Commission and other parties as outlined in the report. It would also directly impact the provision of services due to the fact that SVDP Management will be using the cash flow from the project to supplement its service programs.

Respectfully submitted,

Pat Duplechan
Director, Housing Programs

**Signature on File
With Original Document**

Approved by,

Elizabeth C. Morris
Chief Executive Officer

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- Attachments:
1. Project Location Map
 2. Housing Commission report HCR00-099
 3. Revised Development Timeline
 4. Rent Comparison
 5. Summary of Project Changes
 6. Revised Proforma Sheets

ATTACHMENT 4
REVISED DEVELOPMENT TIMELINE

- October, 2000 - Loan Committee Approval
- October, 2000 - Housing Commission Approval
- November, 2000 – Housing Authority Approval
- April, 2001 – Housing Commission Approval of Project Changes
- May 2001 – Housing Authority Approval of Project Changes
- June, 2001 - TCAC Application
- August, 2001 - TCAC Allocation
- December, 2001 - Start Construction
- October, 2002 - Complete Construction, Full Occupancy

ATTACHMENT 3

RENT COMPARISON

Proposed Unit Affordability

Type	Sq. Ft.	Number of Units	Restricted Rent (net of Utility allowance)
Studio@39%	325	9	\$349
Studio@44%	325	36	\$396
Studio@49%	325	40	\$443
1bdm@46%	540	4	\$467
Mgr's Unit		1	
Total Units		90	

Previous Unit Affordability

Type	Sq. Ft.	Number of Units	Restricted Rent (net of Utility allowance)
Studio@45%	325	10	\$400
Studio@40%	325	26	\$353
Studio@35%	325	7	\$306
1bdm@33%	672	2	\$320
1bdm@33%	358	5	\$320
1bdm@42%	358	32	\$422
1bdm@45%	358	12	\$371
Mgr's Unit		1	
Total Units		95	

Attachment 5

Summary of Project Changes

Emporium Apartments

	<u>Orig. Application</u>	<u>Proposed Changes</u>
<u>Project Summary</u>		
Total # of Units	95	90
Restricted Units	94	89
Parking Spaces	6	21
Target Income Levels	33 – 45% AMI	39 – 49% AMI
Restricted Rents	\$306 - \$422/mo.	\$349 - \$467/mo.
Affordability	55 yrs.	55 yrs.

Development Cost

Total Residential Dev. Cost	\$7,925,563	\$10,242,507
Total Commercial Dev. Cost		\$ 1, 014,550
Total Development Cost		\$11,257,037

HC Development Cost	\$2,000,000	\$ 2,000,000
Total Residential Dev. Cost/Unit	83,427	113,806
HC cost per (restricted) unit	21,277	22,472
Subsidy per (restricted) bdrm	21,277	22,472

Sources of Funds

LIHTC	\$4,510,100	\$7,547,037
SDHC	\$2,000,000	\$2,000,000
AHP	\$661,463	\$500,000
SVDP Equity-Land	\$754,000	\$410,000
CCDC	none	\$800,000
Total	\$7,925,563	\$11,257,037

Loan Terms

Term of Financing	55 yrs.	55 yrs.
Interest Rate	3%	3%
Residual Receipts Payments	50%	50%

ATTACHMENT 5, CONT.

ProForma Assumptions

Year 1 Estim. Ann. Income	\$436,956	\$426,508
Estim. Annual Expense	\$332,540	\$318,374
Net Operating Income	\$82,568	\$108,134
Annual Debt Service:		
1 st Mortgage (SDHC) 50%	\$41,284	\$ 54,067
2 nd Mortgage (CCDC) 30%		\$ 32,440
3 rd SVDP 20%		\$ 21,627