



Good Neighbors

San Diego
Housing Commission

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REPORT

DATE: For the Agenda of May 11, 2001

ITEM 102

REPORT NO.: HCR01-057

SUBJECT: Loan to Southern California Housing Development Corporation for the Acquisition and Rehabilitation of 4010-4050 Park Haven Court (Council District 4)

SUMMARY

Issue: Should the Housing Commission seek Housing Authority approval of a loan of up to \$1,418,838 to Southern California Housing Development Corporation for the acquisition and rehabilitation of a 40-unit property located at 4010-4050 Park Haven Court?

Recommendation: Seek Housing Authority approval of a 3% residual receipts loan secured by a second trust deed in the amount of \$1,418,838 for this project contingent upon the award of tax credits by CTCAC and bond allocation by CDLAC during Calendar Year 2001.

Fiscal Impact: If this project receives an award of tax credits and an allocation of tax-exempt bond financing during Calendar Year 2001, an auditor's certificate committing up to \$1,418,838 in HOME Program Funds and Housing Trust Funds will be issued. This "forward commitment" of Fiscal Year 2002 funds is subject to approval of the Housing Commission Fiscal Year 2002 budget and the availability of funds for multi-family housing.

Affordable Housing Impact: Approval of the recommendation will provide 39 units affordable to families earning no more than 60 per cent of the area median income. Under the California Debt Limit Allocation Committee (CDLAC) affordability requirements, 5 one-bedroom units will be affordable to families at 50% and 60% of area median income; 29 two-bedroom units will be affordable to families with incomes at 50% and 60% of area median income; and 5 three-bedroom units will be affordable to families at 50% and 60% of area median income. One two-bedroom unit will be a



manager's unit. The units will be affordable for a 55-year period with rents that appear as follows:

Type	Sq. Ft.	Number of Units	Restricted Rent (net of utility allowance)	Market Rate	Savings
1br@50%	576	3	\$476	\$650	\$174
1br@60%	576	2	\$582	\$650	\$68
2br@50%	768	15	\$568	\$750	\$177
2br@60%	768	14	\$696	\$750	\$49
2br@0%*	768	1	\$0	N.A.	N.A.
3br@50%	960	3	\$621	\$875	\$247
3br@60%	960	2	\$764	\$875	\$104
Total Units		40			

*Indicates Manager's unit

Environmental Review: The City's Environmental Analysis Section has determined that the proposed project is exempt from review pursuant to Section 15061(b)(3) of the California Environmental Quality Act (CEQA) Guidelines, and under the National Environmental Policy Act (NEPA) pursuant to 24CFR58, Section 58.34(a).

Community Planning Group Review: The project was presented to the Southeast San Diego Development Committee Projects Review Subcommittee on April 23, 2001. The subcommittee will recommend its support of the project when it is presented to the Southeast San Diego Development Committee on May 14, 2001.

Home Program Compliance: An acquisition and rehabilitation loan is an eligible activity under HOME rules. Of the 40 units, 11 would be HOME funded and subject to HOME rent restrictions. The designated HOME units would consist of (1) one-bedroom unit, (7) two-bedroom units, and (3) three-bedroom units. Housing Commission rent restrictions would apply to 28 of the remaining units.

Equal Opportunity Statement: Southern California Housing Development Corporation is in compliance with the Housing Commission's Equal Opportunity Programs.

Previous Related Action: This project was previously presented to the Loan Committee at the May 1, 2001 Loan Committee meeting.

Future Related Action: Loan: The recommended funding exceeds the Housing Commission's approval limit (\$250,000) and will require Housing Authority

approval. Bond: A specific authorization to issue bonds will be sought from both the Housing Commission and the Housing Authority at a later date.

BACKGROUND

Southern California Housing Development Corporation submitted this application for funding under the Housing Commission's current Notice of Funding Availability For The Construction, Acquisition And Operation of Affordable Rental Housing.

DISCUSSION

The Borrower

Southern California Housing Development Corporation (SDHDC) is a non-profit public benefit corporation that was formed in 1992. According to its Articles of Incorporation, "The specific purpose of this corporation is to lessen the burden" of cities in Southern California "by assisting in the development of affordable housing". San Diego County is specifically mentioned in the Articles of Incorporation. SDHDC specializes in creating affordable housing developments through the acquisition and rehabilitation of appropriate properties. Since its founding in 1992, the corporation has acquired and rehabilitated over 3,500 housing units. This includes three properties in San Diego County – 45 units in Escondido, 136 units in San Marcos and 132 units in National City – that received similar financing as proposed for the subject development. All of their properties have been acquired and rehabilitated with public agency low-interest loans and grants, private institution loans, tax credits and bonds.

The proposed acquisition and rehabilitation of the subject property would be the first development performed by the developer within the City of San Diego.

SCHDC currently employs approximately 150 people of which 25 are in the County of San Diego. It has its own construction, property management, accounting, and social services/resident programs departments. SDHDC would be responsible for the construction oversight (as general contractor) and the day-to-day management of the development. It is the developer's intention and experience to hire all local subcontractors and tradespersons for the performance of the rehabilitation work.

The Property

The Park Haven Apartments are 14 years old. The property benefits from a Density Bonus Transfer Agreement that increased the allowable density from 25 units to its current 40-units. It consists of five 2-story wood-frame structures located in the Mountain View area. It is next door to Mountain View Park where a new, 20,000+ square foot community center will commence construction within a year's time.

Park Haven has a laundry facility, a playground, and 65 open parking spaces. There are planters with easy care bark, shrubs, and mature trees throughout the site along with concrete walkways. The site has good access to public transportation, freeways, and shopping. It is located within walking distance to the Imperial Marketplace, a major retail commercial redevelopment project that is currently under construction by Southeastern Economic Development Corporation.

The current configuration consists of 5 one-bedroom units, 30 two-bedroom units and 5 three-bedroom units in a two-story walkup garden apartment design.

The acquisition price is \$2,205,000. According to the MAI Appraisal, the "as-is" value is \$2,235,000 and the "after rehab" value is \$2,400,000.

The rehabilitation estimate including overhead and fees is approximately \$615,280 (\$15,382 per unit). Attachment 9 consists of the Developer's proposed scope of work and the staff-prepared Preliminary Inspection List. The scope of work includes exterior painting and relocation of the trash enclosure away from the tot lot. A passive community area is being designed to include a barbeque, picnic benches and table, and a gazebo. Interior improvements will include some door replacements, new floor and wall finishes, electrical improvements including the installation of code-approved smoke detectors and the installation of air conditioning units with heat pumps to replace the existing wall furnaces in all units, plumbing repairs and kitchen upgrades. The exterior upgrades will consist of additional landscape improvements, security fencing and automatic gates, repairs and parking lot resealing and striping. Additional work will include upgrading of the maintenance shop and the expansion of the tot lot.

The developer will also be pursuing the development of an on-site, 650 square foot, multi-purpose community room for resident resource service programs such as employment development, financial planning, after school tutoring, adult education, homeownership education, pre-school and other age group activities that would be appropriate and respectful to the residents' needs. There will also be computers

equipped with software to provide self-paced learning with an emphasis on literacy and mathematics comprehension for children and adults.

The operating budget includes funds to pay for repairs and replacements anticipated to be needed within the next five, ten, and fifteen years.

The applicant is discussing the project with Pacific Relocation Consultants to determine if a relocation plan is appropriate. The plan would include relocation of any affected and eligible residents within the existing project. Initial information received reflects that a number of residents are between 60 and 80% of the AMI. At least one resident is over-income.

The seller of the property is WVC, a California limited partnership. The partners are Trabajadores de la Raza, Maurice Correia, Elden Vanover, Walsh Partners, Kevin Walsh and Patrick Diedrich.

The Funding Request

The total development costs for the project would be \$3,573,764. The first position funding is proposed to be tax-exempt permanent bond financing in the amount of \$1,168,451 utilizing Federal National Mortgage Association ("Fannie Mae") credit enhancement. Total loans against the property would be \$2,587,289. It additionally assumes a 4% tax credit issued by the California Tax Credit Allocation Committee (CTCAC) in the approximate amount of \$986,475. A companion Housing Commission Report will be prepared regarding the terms of bond issuance.

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 will be 50% of residual receipts (starting at stabilized occupancy.) Beginning at year four, for the balance of the loan term, payments will equal the greater of 50% of residual receipts or \$8,865, which is equal to half of the estimated residual receipts at year one (subject to the acceptance by the primary lender and its lending requirements.) 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 property "as-is" is \$2,235,000, which exceeds the purchase price by \$30,000. An estimate of stabilized market value after completion of construction is \$2,400,000, 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 108%.

The Financial Plan

Total Development Cost	The total development cost is \$3,573,764, which includes the purchase price, and other development costs.
Appraised Value:	The "as-is" value is \$2,235,000 and the "after rehab" value is \$2,400,000.
Security:	The loan will be secured by a second trust deed against the property.
Loan-to-Value:	The after-rehab loan to value is 108%.
Debt Service Ratio:	The debt service ratio on the first trust deed in the first year is 1.20.
First Trust Deed:	It is proposed that an amortized tax exempt permanent loan of at least \$1,168,451 will be in first position with a term of 30 years and a 6.5% interest rate.
Second Trust Deed:	Housing Commission funds; 3% simple interest.
Payments on the Second Trust Deed:	Initially, annual debt service payments will equal 50% of residual receipts. At year four, annual debt service payments will equal the greater of 50% of residual receipts or \$8,865 (subject to the approval of the first position lender.)
Rent Restrictions:	A Declaration of Covenants and Restrictions with a 55-year term will be recorded against the property. 53% or 21 of the units will be affordable to households earning 50% of area median income (AMI) or less. 45% or 18 of the units will be restricted to households earning 60% of AMI or less.

Occupancy Restrictions:	Occupancy of 39 units will be restricted to families earning no more than 60% of AMI. One unit will be designated for an on-site manager.
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:	Fifty-five years
Management Plan:	A Management Plan has been approved.
Operating Expense:	Average operating expense of \$360 per unit per month includes a replacement reserve.
Pro Forma Assumptions:	Income increases are projected at 2.5 percent per year; expense increases are projected at 3.5 percent per year; vacancy is projected at 5.0 percent per year.

Risks and Mitigations

Initially, the amount of the loan that exceeds "After-Rehab" value will be uncollateralized. However, the risk level is considered to be low as it is mitigated by conservative proforma assumptions, rents below market, and a 1.20 debt service ratio that is higher than the Commission minimum ratio of 1.05. The operating proforma includes replacement reserves to help protect the project's condition and performance in future years.

This potential property acquisition is strengthened by the applicant's extensive real estate experience and portfolio record with similar types of projects.

ALTERNATIVE

The Commission could decline to fund this gap loan, in which case the City of San Diego would lose an opportunity to develop a partnership with an experienced

affordable housing developer as well as lose an opportunity to increase the affordable housing supply by guarantying the affordability of 39 units to families at 60% or less of the area median income for a period of 55 years.

Respectfully submitted,

Approved by,

Pat Duplechan
Director, Housing Programs

Elizabeth C. Morris
Chief Executive Officer

**Signature on File
With Original Document**

- Attachments: 1. Location Map
2. Project Development Summary
 3. Development Timeline
 4. Summary of Previous Housing Commission Loans
 5. HC Development Form
 6. Developer's Disclosure Statement*
 7. Financial Statement*
 8. Appraisal*
 9. Rehabilitation Cost Estimate*

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

ATTACHMENT 2

Project Development Summary May 1, 2001

Name: Park Haven Apartments
Location: 4010-4050 Park Haven Court
Description: Rental housing for very low income residents
Sponsor: Southern California Housing Development Corporation

Unit Affordability

Total # of units:	40 (39 restricted units)		
Bedroom Size	<u>1 Bedroom</u>	<u>2 Bedroom</u>	<u>3 Bedroom</u>
Restricted Units	5	29	5
Restricted Rents	\$476 (3)	\$568 (15)	\$621 (3)
	\$582 (2)	\$696 (14)	\$764 (2)
Market Rent	\$650	\$750	\$875
% of AMI	50%/60%	50%/60%	50%/60%
Affordability Period:	55 years		

Development Cost

Total development cost:	\$3,573,764
HC loan amount:	\$1,418,838
Total development cost per unit:	\$89,344
HC cost per restricted unit:	\$36,380
Subsidy per bedroom @ 78 BR's:	\$18,190

Sources of Funds

Conventional Lender Loan 1st TD	\$1,168,451	(35-year amortization)
Housing Commission 2nd TD	\$1,418,838	(55 year/residual receipts loan)
4% Tax Credit	\$986,475	
Appraised value (after-rehab):	\$2,400,000	

Pro Forma Summary

Estimated annual income:	\$279,015	(Year 1)
Estimated annual expense:	\$172,660	(Year 1)
Annual debt service:	\$88,625	(1.20 ratio-Year 1)
Estimated residual receipts:	\$17,730	(Year 1)
Estimated cumulative residual:	\$342,311	(Year 15 net)

ATTACHMENT 3

DEVELOPMENT TIMELINE

4010-4050 PARK HAVEN COURT SOUTHERN CALIFORNIA HOUSING DEVELOPMENT CORPORATION

Housing Commission Approval	May 11, 2001
Housing Authority Approval	May 15, 2001
Acquisition	July 30, 2001
Rehabilitation Start	August 30, 2001
Construction Complete	May 30, 2003