



Good Neighbors

San Diego  
Housing Commission

# REPORT

**DATE:** For the Agenda of June 1, 2001

**ITEM 104**

**REPORT NO:** HCR01-062

**SUBJECT:** Approval of Development Loan for Grant Heights Park Apartments  
(Council District 8)

## SUMMARY

**Issue:** Should the Housing Commission approve and recommend Housing Authority approval of a loan to San Diego Urban League's Urban Housing Corporation (UHC) for acquisition and rehabilitation to preserve an existing affordable housing complex, the 28-unit Grant Heights Park Apartments?

**Recommendation:** Approval of a loan of up to \$867,279 towards Urban Housing Corporation's purchase and rehabilitation of Grant Heights Park Apartments, subject to availability of the funds following allocation of FY01 tax credits. The project will compete for an allocation of federal tax credits in the next round (application deadline is June 15, 2001). Should the project not receive the anticipated allocation, this funding commitment may be extended through the end of calendar year 2001 at the discretion of the Chief Executive Officer.

**Fiscal Impact:** If this project receives an allocation of approximately \$1.02 million in federal tax credit financing during calendar year 2001, an auditor's certificate committing \$867,279 in FY2002 HOME and Housing Trust Fund funds will be issued.

**Affordable Housing Impact:** UHC's ownership of Grant Heights Park Apartments, with Housing Commission assistance, will preserve the affordability of a 28-unit complex which has project-based Section 8 in place. Twenty-seven units will be affordable to households between 42 and 50 percent of Area Median Income (AMI); there is one manager's unit.



**HOME Program Compliance:** The project would be in compliance with HOME Program requirements. Of the 28 total units, five would be HOME-assisted.

**Equal Opportunity Statement:** Urban Housing Corporation has certified that it will comply with the Commission's Equal Opportunity Program.

**Environmental Review:** The City's Environmental Analysis Section has determined that the proposed project is Categorically Exempt under the National Environmental Policy Act (NEPA), per 24 CFR 58.34(a)(12), and exempt from review pursuant to the California Environmental Quality Act (CEQA). The property has been determined to contain asbestos-bearing materials but no lead-based paint. The cost for abatement of the asbestos is included in the project development cost.

**Community Planning Group Review:** The proposed project was reviewed by the Southeast San Diego Development Committee (SESDDC) on December 11, 2000 and was approved by a vote of 4-3, on condition that UHC:

- 1) develop an educational mentoring center with computers at the complex;
- 2) preserve existing trees and enhance the landscape with additional trees;
- 3) develop a "communicative relationship" with the management of Grant Hill Park; and
- 4) return to SESDDC to present landscape enhancement plans and a palette of colors for exterior painting.

The applicant returned to SESDDC on January 8, 2001, at the request of the group, and has committed to returning with additional information as it is available.

**Previous Related Action:** On May 1, 2001, the Loan Committee unanimously approved a loan of up to \$960,000 to UHC for this development. Staff concerns and discussion with UHC following the Loan Committee action led to reductions in total development cost and the proposed level of Commission financial participation, as presented here.

**Future Related Action:** Approval by the Housing Authority.

## **BACKGROUND**

Grant Heights Park Apartments, located at 2953 - 2661 "J" Street, across the street from Grant Hill Park (see map, Attachment 1), was developed in 1973 by a local private partnership under HUD's 236 financing program. Project-based Section 8 rental assistance is in place for all 28 units. The original 20-year Section 8 contract expired in 1998 but has since been renewed until May 31, 2004.

UHC, a certified Community Housing Development Corporation (CHDO), was in negotiation for the property for more than a year. Facing imminent loss of the

opportunity to purchase if there were further delay, UHC took ownership in October, 2000, shortly after applying for assistance under the Commission's current Rental Housing Notice of Funding Availability (NOFA). Bank of America and its affiliate, Banc of America Community Development Corporation, provided short-term (two year) financing for the acquisition.

Nationwide, Bank of America is working with the Urban League to help improve communities through investment and direct, sustained involvement.

## **DISCUSSION**

### The Borrower

UHC, a 501(c)(3) nonprofit, was established in 1994 as San Diego Urban League's affordable housing and economic development affiliate. At this time, UHC owns and operates 36 transitional housing units for veterans, is near to starting construction on the 26-unit Encanto Urban Village first-time homebuyers development on Akins near 63<sup>rd</sup> Street, and has purchased a 28-unit development on Imperial Avenue and an undeveloped 1.45-acre parcel on Naranja Street near Euclid Avenue for a proposed 21-unit multifamily rental housing development.

The Commission provided a loan to UHC for the Veteran's Bridge project (transitional housing). Loan servicing information, including an audited financial statement for the year ending September 30, 2000, is due May 30. The Commission also approved an advance commitment of \$200,000 in first-time homebuyer assistance for Encanto Urban Village (EUV). UHC is currently processing the final map and development plans for City approval of EUV; however, the project is currently some months behind the most recently revised schedule.

UHC offers a wide range of services that are available without charge to residents of all its residential properties, such as family, health and life-skills counseling; after-school educational programs; and job training/job placement. The development plan proposed for Grant Heights Park Apartments includes the conversion of unused storage space into a computer/internet learning laboratory that may also serve as a community room.

The development/management team for this project includes UHC Executive Director, Phillip A. Brown; Senior Project Manager Caryl S. Foster; board member Loretta Orme; and Wilmer Cooks of Hallmark Management Associates. UHC has been working with the California Housing Partnership Corporation regarding their application for tax credits.

### The Property

Grant Heights Park Apartments consists of 28 apartments and a laundry room in two two-story and two three-story walk-up buildings, located on a hill (with two-story access on the up-hill side of the three-story buildings), in a primarily residential neighborhood. Bayview Medical Center (formerly Physicians and Surgeons Hospital) is located approximately one block away. In addition to the neighborhood amenity of Grant Hill Park directly across the street, convenience shopping is located nearby, as is a trolley station. Sherman Elementary School serves the area, and the San Diego Unified School District is planning another elementary school in the vicinity.

Constructed and in operation since 1973, the complex has been generally well maintained. Nevertheless, various systems and fixtures are obsolete and need to be replaced in order to assure good, workable condition into the future. Rehabilitation will include conversion of unused storage space into a computer learning center/community room, conversion from master electrical metering to individual metering, interior and exterior painting, new roofing (including drainage improvements), landscape enhancements, new floor-coverings, kitchen appliances, water heaters and low-flow toilets, and miscellaneous repairs and replacements. The rehabilitation work will be bid out.

Abatement of asbestos-containing materials will be carried out as required. Temporary relocation of current residents for removal of asbestos-containing materials, such as the mastic used to adhere vinyl floor tiles, is budgeted at \$15,000; no other relocation would be needed. (A certified lead-based paint inspector found no lead-based paint hazards.)

The resulting cost of the up-front rehabilitation is \$447,000, or \$15,964 per unit; an additional \$174,000 of rehabilitation items, estimated to be needed in ten to fifteen years, would be postponed until needed and paid for out of a replacement reserve account, partially funded through the development loan and under Commission control. The items include second rounds of re-roofing and exterior painting, some replacement of cabinets and countertops (some will be replaced initially), and the replacement of bathtubs and enclosures.

### Preservation of an At-Risk Affordable Housing Project

Grant Heights Park Apartments is listed in the City's Housing Element as a property at-risk for loss of affordable housing. Although located in Census Tract 48, a tract with a high concentration of low income households, the project has been certified for consistency with the Consolidated Plan because it has community support and preserves much needed affordable housing.

When UHC purchased the property, the HUD "236" loan was repaid with a portion of the sales proceeds. Repayment of the loan could have released the obligation to retain Grant Heights Park as affordable housing. However, it is UHC's desire and intention to preserve and even enhance the affordability of the complex, as shown in the table below. UHC is aided in that endeavor by project-based Section 8 rental assistance that was in place at the time of purchase; the previous owner assigned the Section 8 contract, which runs through May 31, 2004 (though annual renewal through HUD is subject to availability of funds), to UHC.

<u>No. of Units</u>	<u>No. of Bdrms.</u>	<u>Market Rents</u>	<u>Current (Sect. 8) Rents</u>	<u>Proposed Rents**</u>	<u>Proposed % AMI</u>
6	1	\$640-650	\$540	\$422	42
4	1	640-650	540	476	45
7	2	790-800	605	508	47
<u>10</u>	<u>2</u>	<u>790-800</u>	<u>605</u>	<u>567</u>	<u>50</u>
27*					

\* There are 28 units; one unit is a resident manager's unit.

\*\* UHC would adhere to the proposed rent schedule, with or without Section 8.

### Funding Request

UHC originally requested \$960,000 from the Commission, or \$34,286 per unit (nearly \$21,000 per bedroom), based on total development cost of \$2,743,185, or \$97,971 per unit (\$59,635 per bedroom). Since Loan Committee approval, that request has been reduced to \$867,279, or \$30,974 per unit, based on total development cost of \$2,393,718, or \$85,490 per unit.

The reduction was accomplished primarily by:

- decreasing the developer's fee by \$41,834 (from \$198,499 to \$156,665 and from 7.2 percent to 6.5 percent of total development cost);
- projecting an 8.5 percent interest rate on the permanent convention loan rather than 9.25 percent; and
- postponing a portion of the rehabilitation that would be needed in ten to fifteen years, paying for the postponed items at the time needed through an interest-bearing replacement reserve account, subject to Commission control, that would be partially capitalized when the loan is funded.

The reduction of up-front rehabilitation costs also reduces the construction contingency, construction interest, and other "soft" costs associated with the rehabilitation.

The projected low rents (affordable at 42 to 50 percent of area median income) will support \$508,513 of amortizing debt. UHC has applied for a \$108,000 Affordable Housing Program grant; if that application is successful, the Commission's contribution to the project would be reduced accordingly. Furthermore, Commission funding would occur only if UHC's tax credit application is successful.

### Early Acquisition

The Commission has, on previous occasions, raised concerns about applicants acquiring property prior to applying for or approval from the Commission for development funding. One reason for that concern has been the Commission's desire to evaluate investments free of any pressure to "rescue" a developer from the consequences of previously-made decisions. Another reason is HOME program regulations (24CFR 92.206g) restricting the use of HOME funds for refinancing.

In this case, staff had been discussing the venture with UHC over a long period, even before UHC entered into a purchase contract with the previous owner in August 1999. During these discussions, UHC was strongly advised that Housing Commission funding after close of escrow could not be assumed. However, after approximately one year in escrow, UHC took title to Grant Heights Park Apartments on October 6, 2000 because the seller refused to extend escrow any longer. Some time later, UHC firmed up its funding strategy and submitted a complete application under the Commission's Rental Housing NOFA.

In addition, HUD staff has opined that this recommendation does not constitute use of HOME funds for refinancing because the environmental review of this project under the National Environmental Policy Act (NEPA), which was initiated prior to the close of escrow, will serve to establish that HOME financing of this CHDO-eligible project was anticipated as part of the permanent financing.

### Financing Plan

Total Development Cost:	\$2,393,718
Appraised Value:	As-is value: \$1,257,000; after-rehabilitation value: \$1,675,000. (UHC paid \$1,225,000 to acquire the property.)
Security:	The Commission's loan would be secured by a trust deed in second position.
Loan-to-(After Rehab)-Value Ratio:	82%

Debt Service Coverage:	The debt service ratio on the first position mortgage in the first year is 1.15.
First Trust Deed:	\$508,513. The lender and terms are not yet committed, but the loan amount is based on the premise of a Bank of America 30 year loan at 8.5 percent interest.
Second Trust Deed:	Housing Commission residual receipts loan, at three percent simple interest.
Payments on Commission's TD:	Housing Commission would receive half and UHC would receive half of residual receipts.
Rent Restrictions:	A Declaration of Covenants, Conditions and Restrictions would be recorded, stating a 55-year term. Rents would be the more restrictive of the HAP contract or tax credit financing terms. If the HAP contract should lapse, rents would be the more restrictive of the tax credit financing terms or HOME rents for 5 units, and the more restrictive of tax credit financing terms or 50 percent AMI for 22 units.
Occupancy Restrictions:	Five units must meet HOME requirements: A minimum of one unit for households at 50 percent AMI or less and four units for households at no more than 60 percent AMI. (The applicant proposes all 27 units affordable at no more than 50 percent AMI.)
Recourse:	This would be a recourse loan to UHC until the creation of the tax credit limited partnership, as provided for in the Commission's lending policy for tax credit-financed projects.
Term:	55 years.
Management Plan:	The applicant's Management Plan has been approved.

Operating Expenses: Expenses totaling \$311 per unit per month are projected.

Proforma Assumptions: Rents to increase at 2.5 percent and operating expenses at 3.5 percent per year; a vacancy rate of 5 percent is assumed.

### Risks and Mitigation

If UHC is successful in obtaining the \$1,017,826 of tax credits for which they are applying, which is nearly half of the total development cost, they will be able to preserve the affordability of this 28-unit complex and keep it in good condition for many years to come. This also means minimal risk to lenders. However, because of the low rents, the project cannot service additional debt, severely limiting the options if tax credits are not forthcoming.

### **ALTERNATIVE**

Denial of this application could result in loss of the opportunity to preserve these 28 affordable units and the HUD project-based rental subsidy that makes them truly affordable to very or extremely low income households.

Respectfully submitted,

Approved by,

Pat Duplechan  
Director, Housing Programs

Elizabeth C. Morris  
Chief Executive Officer

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Attachments: 

1. Vicinity Map
2. Project Development Summary (revised)
3. Development Timeline
4. Summary of Previous Housing Commission Loans
5. Housing Commission Development Forms
6. Developer's Disclosure Statement\*
7. Audited Financial Statement (1999)\*
8. Rehabilitation Cost Estimate

\*Distribution of these attachments is limited. Copies are available for review at the Housing Commission office located at 1625 Newton Avenue and at the Office of the City Clerk, 2<sup>nd</sup> Floor, 202 C Street.

### **Attachment 3 - Development Timeline**

Housing Authority .....	June 12, 2001
TCAC Applications Due .....	June 15, 2001
Tax Credits Allocated .....	August, 2001
Permanent Loan Commitment .....	September, 2001
Close of Escrow .....	December, 2001
Rehabilitation Begins .....	February, 2002
Rehabilitation Completed .....	September, 2002

## Attachment 4 - Previous Housing Commission Loan(s)

<u>Project</u>	<u>Address</u>	<u>Loan</u>
Veterans Bridge*	3625 Fairmount Avenue	\$126,000, 2 <sup>nd</sup> TD Residual receipts
<ul style="list-style-type: none"><li>• 16 units of transitional housing, with wrap-around services, for homeless veterans.</li></ul>		
<p>(The following is a loan commitment, but no funds have been disbursed.)</p>		
Encanto Urban Village	6370 Akins Avenue	\$200,000 for first-time homebuyers