



Good Neighbors

San Diego
Housing Commission

REPORT

DATE: For the Agenda of June 1, 2001

ITEM 105

REPORT NO: HCR01-066

SUBJECT: Proposed Loan to Mayberry LP for New Construction of the Casa Puleta Apartments (Council District 4)

SUMMARY

Issue: Should the Housing Commission recommend Housing Authority approval of a loan up to \$1,000,000 to NHPAHP Mayberry LP (Mayberry LP) for new construction of the Casa Puleta Apartments, a 54-rental unit complex located at 1445 South 45th Street? (Housing Commission participation would assist in completing construction and assuring long-term affordability).

Recommendation: It is recommended that the Housing Commission recommend Housing Authority approval of a loan up to \$1,000,000 to Mayberry LP, on the terms outlined in this report, and contingent upon: 1) Mayberry LP's receipt of nine percent federal tax credit financing during the calendar year 2001; and 2) that the roles and responsibilities of the locally based non-profit Managing General Partner, as well as the locally-based managing agent, are subject to the approval of the Housing Commission.

Fiscal Impact: If this project receives an allocation of approximately \$5.45 million in federal tax credit financing during calendar year 2001, an auditor's certificate will be issued committing to this project up to \$1,000,000 in HOME and Housing Trust Funds, from the FY02 budget.

Affordable Housing Impact: This development will create 54 new rental units: 11 two-bedrooms, 27 three-bedrooms, and 16 four-bedrooms. Fifty-three of the units will be restricted for occupancy by low income and very low income families and one unit reserved as manager's unit. The development will be 100% affordable with rents ranging from 40% to 54% of area median income. Occupancy of the fifty-three affordable units will be restricted to households ranging from 40% to 54% of area median income. The 53 restricted units will be affordable for a term of 55 years.

Community Planning Group: The Southeast San Diego Regional Development Committee unanimously approved this project on January 10, 2000.

HOME Program Compliance: A loan for construction of new units is an eligible activity under the HOME Program. The proposed rents are in conformance with HOME guidelines. Eleven units will be designated as HOME-restricted units and 42 additional units will be restricted as Trust Fund units. The Housing Commission's HOME funds will only be used to pay HOME-eligible costs yet to be expended.



Equal Opportunity Statement: Mayberry LP has certified that it will comply with the Housing Commission's Equal Opportunity Programs.

Environmental Review: The City of San Diego Environmental Analysis Section has reviewed this project under the California Environmental Quality Act (CEQA) and the National Environmental Policy Act (NEPA) and has determined that the project is exempt under CEQA and also under NEPA, pursuant to 24 CFR Part 58, Section 58.34(a)(12).

Previous Related Action: On May 15, 2001, the Loan Committee approved the loan recommendation to the Housing Commission contingent that the roles and responsibilities of the locally based non-profit [Managing General Partner], as well as the locally-based managing agent, are subject to the approval of the Housing Commission.

Future Related Action: Prior to funding, the Housing Commission will consider the roles and responsibilities of specific partners to the development.

BACKGROUND

The Casa Puleta Apartments is a 54-unit new construction development located at 1445 South 45th Street, (location map at Attachment 1). On May 14, 1998, the project received an allocation of \$5,546,550 of nine-percent federal tax credits from the California Tax Credit Allocation Committee (TCAC), with a December 31, 2000 deadline for placing the units in service. Construction of the units began on May 22, 2000. Because the project could not be placed in service by the December 31, 2000 TCAC deadline, the tax credits were forfeited and TCAC withdrew the federal tax credit financing.

The project construction has continued and completion is estimated in approximately December 2001.

Mayberry LP submitted an application under the Housing Commission's current Notice Of Funding Availability (NOFA). Mayberry LP is proposing to submit a new application to TCAC, in the current June 15, 2001 funding round, for a new allocation of federal tax credits for this project. TCAC will make its allocations in mid-September 2001.

DISCUSSION

The Borrower

Mayberry LP is a for-profit California limited partnership. The parent company of Mayberry LP is Ocwen Federal Bank, of West Palm Beach Florida, a federally chartered savings bank regulated by the Office of Thrift Supervision. Ocwen Federal Bank is a wholly owned subsidiary of Ocwen Financial Corporation ("Ocwen"), based in West Palm Beach Florida, and existing since approximately 1991. Ocwen has used tax credit financing in developing over 5000 units nationwide. Mayberry LP's principals have extensive experience in real estate development

partnerships. Their recent developments include new construction as well as acquisition with rehabilitation. They are currently near completion on the 112-unit Vista Seniors Apartments, an affordable housing development for seniors in Escondido. The subject Casa Puleta Apartments is the first development performed by this developer within the City of San Diego.

Staff has reviewed Mayberry LP's credit report and it is satisfactory. It is on file at the Housing Commission offices.

A tax credit limited partnership will be formed with a to-be-named local nonprofit acting as the Managing General Partner with a 0.1% interest in the partnership, with Mayberry "MCA1 LP" as the .9% Associate General Partner, and Mayberry "CA1 LP" as the 99% Limited Partner and tax credit equity investor. This percentage allocation of interests between the parties is typical of a tax credit project. Housing Commission approval of this new entity will be sought prior to loan funding.

Site Location/Description

The 2.12-acre flat site is currently zoned MF-1500 that allows for residential development (single-family or multi-family) of no greater than one unit per 1,500 sq feet of lot area (61 total possible units). The property is located at the end of a cul-de-sac on 45th Street, south of Mayberry Street. On the north boundary is the First Samoan Congregational Christian Church and further north is the Willie Henderson Sports Complex. On the east and south is an elevated portion of the 43rd Street off ramp of the southbound 805 freeway. Several parks and recreational centers are less than one-half mile further to the east. To the west is the 70-unit Summit Crest Apartments, (formerly named "Mayberry Apartments"), which previously received Housing Commission financing for acquisition and rehabilitation. All necessary community facilities and services are located near the development. Neighborhood shopping is 1½ miles west at Otto Square on National Avenue, and ½ mile west on Southcrest Park Plaza Shopping Center, which offers an Albertson's supermarket, Sav-on Drug Store, and a variety of smaller specialty shops. Within a three-mile radius of the development are an elementary school, Gompers Junior High School, and Lincoln High School.

This 54-unit new construction development is currently over 65% completed. It includes a mix of 11 two-bedroom units (690 sq ft), 27 three-bedroom units (1,034 sq ft), and 16 four-bedroom two-bath units (1,200 sq ft). The development has five buildings in three stories with ground level parking and a mix of townhouse and stacked units. The complex features six washers and dryers; and a clubhouse that includes a wide-screen television, furniture, and computers. Parking includes 105 total spaces: 64 covered parking and 41 open parking spaces. It is proposed to have the developer select a locally based managing agent subject to the approval of the Housing Commission.

The proposed management plan has been reviewed and approved by the Housing Commission's Asset Management Department staff.

The project timeline is as follows: construction of the units began on May 22, 2000; construction is now in process; and completion is estimated for December 2001.

The Funding Request

Total estimated development costs for the project are \$8,513,479 (\$157,657/unit). The proposed permanent financing sources include: \$5,455,783 in equity from the sale of nine percent federal tax credits, a conventional bank loan of \$1,740,000, a developer fee deferral of \$317,696, and staff is proposing that the Housing Commission loan up to \$1,000,000 for the balance of financing required. Housing Commission funding is contingent upon the project receiving federal tax credits. The Housing Commission's funding commitment will expire if the project does not receive a federal tax credit allocation in the 2001-tax credit round. The developer's 1987 application for tax credits included no Housing Commission financing.

The need for Housing Commission financing in the current tax credit application is attributable to: 1) \$250,000 of increased land costs (purchase of the adjoining parcel was necessary to fit all 54 units onto the site); 2) \$180,000 for removing 187 truck loads of underground concrete/debris and importing new soil (the soils report showed no debris under the soil but during excavation substantial underground concrete and debris were discovered); 3) \$1,600,000 due to 10%-20% increases over the last three years, in the project's costs of: concrete, lumber, drywall, and labor; and 4) the current tax credit selection-ranking system necessitates a local contribution to achieve optimum points.

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. Beginning at year four, for the balance of the loan term, payments will equal the greater of 50% of residual receipts or \$10,972 (the minimum payment which is equal to half of the estimated residual receipts at year one).

The proposal is desirable because it is new construction that will add units to the housing stock, including three-bedroom and four-bedroom units.

The Financial Plan

Total Development Cost:

The estimated total development cost is \$8,513,479.

Appraised Value:

The May 17, 2000, "market value upon stabilized occupancy with market rents" appraisal was \$3,690,000. This appraisal results in an estimated loan-to-completion value of 74% (\$1,740,000 of first lender financing and \$1,000,000 Housing Commission's loan, versus \$3,690,000 appraised value). An as-built appraisal will be obtained prior to funding.

Security:	The Commission's loan will be part of the permanent financing and will not be part of, or subordinate to, the current construction loan. Upon permanent financing, the Commission's up to \$1,000,000 loan will be secured by a second trust deed against the property.
Debt Service Ratio:	Debt service on the first position loan is estimated at 1.14 at year one.
Interest:	3% simple interest.
Payments on the Housing Commission's Loan:	For the first three years, annual debt service payments will equal 50% of the residual receipts. Beginning at year four, for the balance of the loan term, payments will equal the greater of 50% of residual receipts or \$10,972 (the minimum payment which is equal to half of the estimated residual receipts at year one). The loan amount will be due in full at the fifth year after payoff of the first position loan.
Rent Restrictions:	A Declaration of Covenants and Restrictions with a 55-year term will be recorded against the property.
Occupancy Restrictions:	Occupancy of 53 units will be restricted to households earning no more than 40% to 52% of area median income for a period of 55 years. One unit will be set-aside as a manager's units.
Recourse:	The Commission's loan will become non-recourse as provided for in the Housing Commission lending policy for tax credit projects.
Term:	55 years.
Management Plan:	The Commission's Asset Management Department staff has reviewed the proposed Management Plan. The management plan is acceptable.
Operating Expense:	Operating expense is projected at \$301 per unit, per month.
Pro Forma Assumptions:	Income increase is projected at 2.5 percent per year; expense increase is projected at 3.5 percent per year, and vacancy is projected at 5.0 percent per year.

Risks and Mitigation

Risk: New construction projects carry inherent cost overrun and completion delay risks.

Mitigation: The units are currently in construction with estimated construction completion in December 2001. The Commission's up to \$1,000,000 loan is contingent upon, and will not fund without, first obtaining a tax credit reservation in mid-September. The Commission's loan will be part of the permanent financing and will not be part of, or subordinate to, the current construction loan. Upon permanent financing, the Commission's up to \$1,000,000 loan will be secured by a second trust deed against the property.

Risk: Loans to tax credit projects become non-recourse upon the creation of the limited partnership for tax credit syndication. This is due to IRS regulations that make the investment undesirable if structured otherwise. The conventional first position loan is also non-recourse for the same reason. This limits the Housing Commission's ability to recover funds to the property itself and not the assets of the developer.

Mitigation: This risk is typically taken by the Commission in tax credit projects, and is deemed mitigated by conservative underwriting assumptions. The permanent financing, which includes tax credit equity, reduces the loan-to-value to 74%. This loan-to-value is favorable and is achieved due to the amount of equity investment provided by the 9% tax credits.

Further considerations are that the units can quickly come online. The property is currently under construction with estimated completion in December 2001. The new construction will add 54 units to the housing stock, including 42 large family (three-bedroom and four-bedroom) units.

For the reasons stated above, staff recommends funding this project based on the terms and conditions as outlined in this report.

ALTERNATIVE

Do not recommend funding the project. This would most likely result in the loss of the ability to apply for tax credits, and would necessitate that the developer seek other funding, which would make this project infeasible for affordable housing development.

Respectfully submitted,

Pat Duplechan
Director, Housing Programs

**Signature on File
With Original Document**

Approved by,

Elizabeth C. Morris
Chief Executive Officer

- Attachments:
1. Project Location Map
 2. Project Development Summary
 3. Development Timeline
 4. HC Development Form
 5. Developer's Disclosure Statement *
 6. Audited Financial Statements *
 7. Appraisal *

* Limited distribution. Copies are available for review at the San Diego Housing Commission office located at 1625 Newton Avenue and at the office of the City Clerk, 2nd Floor, 202 "C" Street.

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ATTACHMENT 1
PROJECT LOCATION MAP

ATTACHMENT 2
Project Development Summary

Name: Casa Puleta Apartments
 Location: 1445 South 45th Street, San Diego
 Description: New construction rentals for very low and low-income residents.
 Sponsor: Mayberry LP

Unit Affordability

Total # of units: 54
 Restricted units: 53

Type	Sq. Ft.	# Of Units	Restricted Rent (net of Utility Allowance)	Market Rate	Savings vs. Mkt Rate
2 bdrm units @ 40%	690	2	\$431	\$603	\$172
2 bdrm units @ 50%	690	9	\$558	\$603	\$ 45
3 bdrm units @ 42%	1034	13	\$490	\$762	\$272
3 bdrm units @ 52%	1034	13	\$638	\$762	\$124
4 bdrm units @ 43%	1200	6	\$531	\$787	\$256
4 bdrm units @ 54%	1200	10	\$696	\$787	\$ 91
TOTAL Restricted		53			

Market rent: All units, except the manager's unit will be rented at below market rates. One unit will be reserved as manager's unit.

Percent of MAI: Restricted Rents will be affordable to persons earning between 40% and 54% of median area income.

Affordability: 55 years on 53 of the 54 units.

Development Cost

Estimated total development cost: \$8,513,479
 Estimated HC development cost: \$1,000,000 (maximum - up to)
 Estimated total development cost per unit (54 units): \$ 157,657 (\$8,513,479 / 54)
 Estimated HC cost per HC-restricted unit (53 units): \$ 18,868 (\$1,000,000 / 53)
 Subsidy per HC-restricted bedroom (164 bdrms): \$ 6,098 (\$1,000,000 / 164)

**ATTACHMENT 3
DEVELOPMENT TIMELINE**

- Start of Construction May 22, 2000
- Loan Committee Approval May 15, 2001
- Housing Commission June 1, 2001
- Housing Authority June 12, 2001
- Tax Credit Application June 15, 2001
- Tax Credit Reservation Sept 15, 2001
- Estimated Construction Completion December 2001
- Estimated Loan Closing: January 2002
- Estimated Full Occupancy March 2002

ATTACHMENT 4
HC DEVELOPMENT FORM

ATTACHMENT 5
DEVELOPER'S DISCLOSURE STATEMENT

ATTACHMENT 6
AUDITED FINANCIAL STATEMENTS

ATTACHMENT 7
APPRAISAL