



Good Neighbors

San Diego  
Housing Commission

# REPORT

ITEM 103

DATE: For the Housing Commission Agenda of October 20, 2000

REPORT NO.: HCR00-097

SUBJECT: Loan to City Heights Community Development Corporation for the Acquisition and Rehabilitation of 4048-4064 1/2 48th Street (District 7)

## SUMMARY

**Issue:** Should the Housing Commission recommend Housing Authority approval of a loan to City Heights Community Development Corporation (City Heights CDC) in the amount of \$778,500 for the acquisition and rehabilitation of the 17-unit Sycamore Court Apartments located at 4048-4064 1/2 48th Street?

**Recommendation:** It is recommended that the Housing Commission recommend a three percent interest, residual receipts second trust deed loan of up to \$778,500 to City Heights CDC.

**Fiscal Impact:** Funding for this development is allocated as follows:

Certificate No.:	01-093
Amount:	\$778,500
Revenue Sources:	HOME (\$740,000) Housing Trust Fund (\$38,500)
Division:	Housing Finance
Line Item:	Loans

**Affordable Housing Impact:** Approval of the recommendation would make 15 two-bedroom apartments and one 1-bedroom apartment affordable to households with incomes at or below 50 percent of Area Median Income. One 2-bedroom unit would be occupied by the resident manager. Initial rents would range from 13 percent to 20 percent below current market rents. Occupancy of the 16 affordable units would be restricted to families earning 50 percent or less of Area Median Income.

**Home Program Compliance:** An acquisition and rehabilitation loan to a nonprofit corporation is an eligible activity under HOME rules. City Heights CDC's proposed rents are below HOME guidelines. Of the 17 units, 11 would be HOME-funded and subject to HOME rent restrictions. Housing Commission rent restrictions would apply to the remaining five apartments.

**Environmental Review:** The Environmental Analysis Section of the City of San Diego determined that the proposed development is exempt from review under the California Environmental Quality Act (CEQA) pursuant to Section 15061(b)(3) of the CEQA guidelines, and exempt from review under the National Environmental Policy Act (NEPA) pursuant to 24 CFR 58, Section 58.34(a). A Phase I environmental review was completed; no hazardous conditions were noted.

Sycamore Court Apartments would be the first acquisition and rehabilitation development funded by the Commission since the new federal Lead Safe Housing regulations became effective on September 15, 2000. The regulations require testing for the presence of lead-based paint in federally-funded developments constructed prior to 1978. The regulations also require removal of lead-based paint when those hazards are identified. Testing at the site was completed; the small number of lead-containing components identified can be easily removed during the normal course of rehabilitation.

**Previous Related Action:** On October 17, 2000, the Loan Committee approved these recommendations and a \$10,000 Housing Trust Fund Project Support Grant for the proposed development.

**Future Related Action:** The item will go to the earliest available meeting of the Housing Authority for final review and approval.

## **BACKGROUND**

City Heights CDC submitted an application for funding in response to the Housing Commission's Notice of Funding Availability (NOFA) dated July 1, 2000. (NOFA No. HF00-04.)

## **DISCUSSION**

### The Borrower

City Heights CDC, a San Diego-based nonprofit corporation founded in 1981, is a certified Community Housing Development Organization (CHDO). The organization owns and operates nine affordable housing developments in San Diego. Sycamore Court would be its tenth affordable housing project. The Commission participated in the funding of eight of the nonprofit's successfully completed developments. City Heights CDC's most recent application for Commission funding was approved on November 30, 1998. City Heights CDC is in compliance with the terms of its loans and grants from the Commission. (See Attachment 4.)

The development team for the proposed acquisition and rehabilitation would consist of City Heights CDC's Executive Director, Mr. Jay Powell, and its Housing Development Manager, Ms.

Carol Black. Legal services would be provided by City Heights CDC board member, Mr. Barry Schultz, Esq.

### The Development

The property is located at 4048-4064 1/2 48th Street. (See Attachment 1 - Location Map.) The structures are approximately 42 years old and contain 16 two-bedroom units and one 1-bedroom unit. The site has easy access to public transportation, schools, and shopping. (See the timeline for the acquisition and rehabilitation in Attachment 3.) The sellers of the property are David C. Lievsay and Donald G. Lievsay. On August 8, 2000, the City Heights Area Planning Committee voted unanimously to support the development.

The acquisition price for the development is \$725,000. The after-rehab market value was appraised at \$840,000 on July 14, 2000; this valuation stands through October 30, 2000. A detailed relocation plan is under development. Based on current information, \$10,000 is budgeted to pay the costs of temporary relocation for residents during rehabilitation of the buildings.

### The Funding Request

The total development cost, including lead-based paint abatement, is estimated to be \$1,153,594 (\$67,858 per unit). California Federal Bank issued a loan commitment of \$375,094 subject to its underwriting criteria, on September 1, 2000. The loan-to-value following rehabilitation would be as much as 137 percent, including the \$778,500 Commission loan.

Because of the age of the buildings, rehabilitation costs are expected to be high. The total estimated cost of rehabilitation is based on contractor estimates and the Commission in-house evaluation; however, City Heights CDC expects the final cost of rehabilitation to be less than the \$314,265 estimate. (See Attachment 8 - Preliminary Cost Estimate.) City Heights CDC believes it may be able to conserve funds by acting as an owner-builder for the development. Any reduction in the cost of rehabilitation work will reduce the amount of the Commission loan and, in turn, the Housing Commission loan-to-value ratio. The nonprofit intends to obtain contracts with outside sources for work requiring building permits or specialized knowledge and equipment, leaving a large portion of the improvements to be performed by City Heights CDC staff. Commission staff would carefully monitor rehabilitation progress to ensure compliance with agency rehabilitation standards. Other nonprofits, and for-profit owners of rental housing, have been successful builders of Commission-financed rehabilitation projects.

City Heights CDC requested a standard developer fee of \$65,000. The proposal holds \$50,000 of the fee as a capitalized reserve for rehabilitation because of the condition of the property, paying \$15,000 of the fee at loan closing. The remaining \$50,000 would be released 90 days after completion of the development.

The Financial Plan

Total Development Cost:	The estimated total development cost is \$1,153,594 including acquisition, rehabilitation, relocation, a developer fee, a capitalized reserve for rehabilitation, and other development costs.
Cost per Unit:	The estimated cost per unit is \$67,858.
Appraised Value:	The selling price is \$725,000, which is the appraised value "as-is". After-rehabilitation market value is estimated by the appraiser to be \$840,000.
Security:	The Commission loan would be secured by a second trust deed recorded against the property.
Loan-to-Value:	The estimated loan-to-value after rehabilitation is 137 percent.
Debt Service Ratio:	The debt service ratio on the first trust deed is 1.23 in the first year.
First Trust Deed:	A conventional 30-year loan of \$375,094 would be in first position at an estimated interest rate of 8.75 percent.
Second Trust Deed:	A 55-year residual receipts Commission loan of \$778,500 at three percent simple interest.
Repayment Plan:	Payments on the Commission loan would be 50 percent of residual receipts. City Heights CDC would retain the remaining 50 percent.
Rent Restrictions:	A Declaration of Covenants, Conditions, and Restrictions would be recorded against the property making 16 units affordable to households earning 50 percent or less of Area Median Income for 55 years.
Occupancy Restrictions:	One unit would be set aside for an on-site manager. Occupancy of the remaining units would be

restricted to households earning no more than 50 percent of Area Median Income.

Recourse: The Commission would have recourse against City Heights CDC.

Management Plan: The management plan submitted was approved by Commission staff.

Operating Expense: The estimated monthly operating expense of \$285 includes a reserve for replacement.

Pro Forma Assumptions: Income increase projected at 2.5 percent per year; expense increase projected at 3.5 percent per year; and vacancy projected at 5 percent per year.

#### Risks and Mitigation

The amount of the loan exceeding the after-rehab value would be uncollateralized. The experience of the developer, conservative pro forma assumptions, adequate cash flow, capitalized reserve, and increasing property values mitigate the risk.

#### **ALTERNATIVE**

The Commission could deny the loan. Without Commission gap financing and its favorable terms, it would likely be infeasible for City Heights CDC to acquire and rehabilitate the development.

Submitted by,

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. Housing Commission General Application Form (pro forma)
  6. Developer's Disclosure Statement\*
  7. Audited Financial Statement\*
  8. Rehabilitation Cost Estimate\*

\* Attachment distribution is limited; copies are available at the Housing Commission office.

ATTACHMENT 2

**Development Summary  
October 20, 2000**

Name: Sycamore Court Apartments  
Location: 4048-4064 1/2 48th Street  
Description: Rental housing for very low income residents  
Sponsor: City Heights CDC

**Unit Affordability**

Total # of units: 17  
Assisted units: 16  
Restricted rents: 1 one-bedroom unit at \$400  
15 two-bedroom units at \$495 to \$544  
Market rent: one-bedroom units at \$500  
two-bedroom units at \$595 to \$625  
Percent of AMI: 1 one-bedroom unit at 43% of AMI  
15 two-bedroom units at 46% to 50% of AMI  
Affordability: 55 years

**Development Cost**

Total development cost: \$ 1,153,594  
HC development cost: \$ 778,500  
Total development cost per unit: \$ 67,858  
HC cost per unit: \$ 45,794  
Subsidy per bedroom @ 33 br's: \$ 23,591

**Sources of Funds**

Private Lender 1st TD loan \$ 375,094  
Housing Commission 2nd TD loan \$ 778,500

**Pro Forma Summary**

Estimated annual income: \$106,904 (year 1)  
Estimated annual expense: \$ 58,044 (year 1)  
Annual debt service: \$ 35,410 (1.23 ratio/year 1)  
Estimated residual receipts: \$ 4,052 (50% of year 1 receipts)  
Est. cumulative residual: \$ 169,991(at the end of year 15)

ATTACHMENT 3

**SYCAMORE COURT APARTMENTS  
DEVELOPMENT TIMELINE**

November 14, 2000	Loan to the Housing Authority for approval
November 15, 2000	Relocation Consultant begins eligibility consultation with tenants
November 27, 2000	Relocation and eligibility consultation with tenants is complete
December 4, 2000	Escrow closing / 90-day relocation notice issued to tenants
March 5, 2000	Relocation complete / Order To Proceed issued to contractor
March 26, 2000	Start of rehabilitation