



Good Neighbors

San Diego
Housing Commission

REPORT

ITEM 106

DATE: For the Housing Commission Agenda of November 17, 2000

REPORT NO.: HCR00-111

SUBJECT: Loan To The Related Companies, LLC and Wakeland Housing and Development Corp. for Vista Terrace (Council District 8)

SUMMARY

Issue: Should the Housing Commission recommend Housing Authority approval of a loan in the amount of one million two hundred thousand dollars (\$1,200,000) to The Related Companies, LLC and Wakeland Housing and Development Corp. (Related/Wakeland) for the acquisition and rehabilitation of 262 units located at 1606 Del Sur Boulevard in San Ysidro?

Recommendation: That the Housing Commission recommend Housing Authority approval of a loan to Related/Wakeland upon the terms as outlined in this report in the amount of one million two hundred thousand dollars (\$1,200,000) for the acquisition and rehabilitation of Vista Terrace.

Fiscal Impact: Funding for this project has been allocated as follows:

Certificate No.:	01-104
Amount:	\$1,200,000
Revenue Source:	\$1,000,000 HOME \$ 200,000 Housing Trust Fund
Division:	Housing Finance and Development
Line Item:	Loans

Affordable Housing Impact: Development of this project will preserve 260 units of affordable housing stock (208 three-bedroom and 52 four-bedroom units) with 100% of the units affordable to very low- and low-income households. Proposed rents range from 50% to 64% of median area income; occupancy of the units will be restricted to households earning a range of 50% to 64% of area median income. The units will be affordable for a term of 55-years. The initial restricted rents will appear as follows:



Type	Sq. Ft.	Number Of Units	Restricted Rent (net of Utility allowance)	Market Rate	Savings
3 bedroom @50%	1,103	42	\$671	1,150	\$512
3 bedroom @ 52%	1,103	21	\$698	1,150	\$452
3 bedroom @62%	1,103	145	\$837	1,150	\$313
4 bedroom @50%	1,247	11	\$725	1,225	\$500
4 bedroom @54%	1,247	6	\$778	1,225	\$447
4 bedroom @64%	1,247	35	\$934	1,225	\$291
TOTAL		260			

Community Planning Group: Related/Wakeland presented the proposed development to the San Ysidro community group on October 17, 2000. Because the project involves acquisition of an existing site, there was no formal action by the planning group. Questions about the planned improvements and future rent levels were asked by Board members. There were no statements in opposition to the proposal.

Equal Opportunity Statement: Related/Wakeland is in compliance with the Housing Commission's Equal Opportunity Programs.

Environmental Review: The City's Environmental Analysis section has reviewed the proposed project pursuant to the National Environmental Policy Act (NEPA) and the California Environmental Quality Act (CEQA) and has determined that it is "Exempt" under NEPA, per 24 CFR Part 58, Section 58.34(a)(12), and categorically exempt under CEQA, per Section 15301 of the CEQA Guidelines.

HOME Program Compliance: An acquisition-rehabilitation loan to a for-profit entity is an eligible activity under the HOME Program. The proposed rents are below HOME guidelines. Eleven units will be designated as HOME units.

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

BACKGROUND

Related/Wakeland has submitted an application under the Housing Commission's current Notice Of Funding Availability (NOFA). Related is partnering with Wakeland to acquire and rehabilitate the 262-unit apartment complex, originally developed in 1971 under a HUD Section 236 mortgage and regulatory agreement.

HUD's Section 236 program provided low interest financing in exchange for use agreements that limited rents to affordable levels for 40 years. At year 20 the program permitted owners to prepay the remainder of the 40-year federally assisted mortgage after which the HUD restrictions no longer applied. These properties could then be converted to market rate rental housing potentially displacing numerous low-income tenants. These projects have been labeled "at-risk" because of the expiring federal assistance.

In 1992, the owner of Vista Terrace could have prepaid the mortgage but instead took advantage of incentives offered by HUD. As a result, the regulatory agreement was amended and a HUD Contract for project-based Section 8 assistance was entered into. The amended regulatory agreement is set to expire in 2012.

The owner/seller of Vista Terrace is Vista Terrace Hills, a California Limited Partnership. Gersten Construction Company, a California Corporation, is its General Partner.

The Loan Committee voted unanimously to recommend approval of this loan at its October 31, 2000 meeting.

DISCUSSION

The Borrower

The applicant Related is an affiliate of The Related Companies, L.P., which is one of the largest developers and financiers of multi-family housing in the country. Related specializes in the development and management of housing throughout the State of California. Established in 1989, it has become one of the largest developers of low income tax credit housing in the state, with development or approval of over 5,000 units throughout California. Its projects range from the redevelopment of obsolete public housing sites in San Francisco and Los Angeles, an award-winning senior project of 100 units in La Mirada, to a comprehensive neighborhood revitalization project in Anaheim.

Wakeland Housing and Development Corporation is a California 501(c)(3) non-profit corporation established in 1998. Between its principals, Wakeland has extensive experience in developing affordable housing with both for profit and nonprofit corporations. Wakeland currently has four new construction projects underway in San Diego, Carlsbad, Poway and National City (912 units), and four acquisition and rehabilitation projects underway in which Wakeland will serve as Managing General Partner (1,128 units). Wakeland is also the nonprofit partner of Fairfield Residential

in the preservation projects formerly known as Mt. Aguilar Apartments and Penasquitos Gardens (816 units).

The applicants' Statement for Public Disclosure and financial statements are included as Attachments 5 and 6.

Staff has reviewed the credit report for Related, the financial guarantor for the proposed project. It is satisfactory and on file at the Housing Commission offices.

Preservation of an At-Risk Affordable Housing Project

Affordable housing projects that are at-risk of conversion in San Diego County have been identified in the City's Housing Element and are a high priority for preservation, with the highest priority given to projects with restrictions expiring in five years or less. Vista Terrace is one of those listed projects and while its amended regulatory agreement will expire in 12 years, it is a very large project and the ability to preserve it will get more difficult as the expiration date nears.

To minimize the loss of at-risk affordable housing the City has developed and implemented a preservation program that encourages the collaboration of nonprofits, for-profits and local government and identifies federal, state and local financial resources, including local funds, bonds and tax credits.

The financing structure proposed is in furtherance of the City's objectives and will utilize California Housing Finance Agency (CHFA) bonds and 4% tax credits along with the Housing Commission loan. A tax credit limited partnership will be formed, Vista Terrace Hills Preservation, L.P., which will be the ownership entity. Related will serve as the Administrative General Partner and Wakeland as the Managing General Partner.

Site Location/Description

The development consists of 30 two- and three-story garden apartment buildings (262 units) over approximately 11 acres. The unit mix consists of 210 three-bedroom, two-bath units of which 140 are townhouses, and 52 are four-bedroom two-bath units. On site are an administration office, five laundry rooms, a recreation building, tot lots and a basketball court. The development is within excellent proximity to several supermarkets, a major shopping center and the San Diego Factory Outlet Center. A covered bus stop is within 100 yards of most units, with a trolley station less than a mile away.

The units are 30 years old and the buildings are wood-frame construction, with stucco exterior walls and asphalt composition shingle roofs. An environmental Phase I has been performed and the buildings contain no lead-based paint.

Asbestos-containing materials were found but are not in a dangerous condition and can be left in place and monitored. Rents for the units will be at very low- and low- income levels as defined by HUD, with the target rental rates ranging from 50% to 64% of median area income. All units in the development are under HUD's Section 8 program (project-based Section 8). Residents pay no more than 30% of household income toward rent. HUD has agreed to continue the Section 8 subsidy for the property until 2012, renewed on an annual basis.

Rehabilitation

While the property has been well maintained, the structures are thirty years old. The applicant proposes a substantial rehabilitation with a budget of \$4,350,000 to bring the property up to current market standards. The planned amenities include a new community center, new administration building/leasing office, quiet courtyard improvements, new tot-lots, BBQ and trellis picnic areas and laundry room upgrades. Site improvements include landscaping, hardscape repairs, improved site drainage, site lighting and new project signage. The building exteriors will be repainted and repaired, railings replaced, roofs repaired, water heaters replaced and exterior screen doors installed. Interior upgrades include new kitchens and bathrooms, along with carpeting, hard-wired smoke detectors, ceiling fans, new door hardware, window coverings and electrical switches and outlets. A rehabilitation plan is included as Attachment 7.

Rehabilitation is estimated to be complete by December 2001. The project timeline is shown in Attachment 3.

Relocation

With all units occupied by Section 8 households, all families should qualify for occupancy and no permanent relocation is anticipated. As rehabilitation is performed on each unit, households will be moved temporarily off site (three days, two nights), with all expenses covered by the applicant. A relocation budget in the amount of \$75,000 is included for this purpose. The applicant has hired the Irvine, California affiliate of Pacific Relocation Consultants to prepare a detailed relocation plan.

Financing Structure

The applicant will be utilizing bond financing with the California Housing Finance Agency (CHFA) as issuer of the bonds. The project has already received its tax-exempt bond allocation from the state. For CHFA multifamily bonds, CHFA is also the credit enhancer. The bonds are backed by CHFA's general obligation, which carries a Standard & Poor's AA- rating. With bond financing, the project

automatically qualifies for the allocation of four percent low income housing tax credits as a contribution of project equity.

The Funding Request

Total development costs for the project are \$28,799,077. The proposed financing sources in addition to the requested loan of \$1,200,000 from the Housing Commission include CHFA tax exempt bond financing in the amount of \$16,680,000, an Interest Reduction Payment of \$1,895,527 that is provided from a HUD program for which funds are set aside, income during the rehabilitation period of \$1,249,146, and proceeds from the sale of 4% tax credits in the amount of \$7,774,404.

The Housing Commission will receive debt service payments on its loan each year in the amount of the lesser of the amortized loan payment, or 75% of cash flow after payment of operating expenses and debt service on the first position note. Beginning in the eleventh year, in the unlikely event there has been a shortfall in payments that were not made up in the preceding years, the Housing Commission loan would be re-amortized to ensure a complete pay-off of the loan within the 55-year term.

HUD's contract to provide Section 8 assistance to this property will expire in 2012. Because the contract is subject to annual renewal, it is possible it could be terminated earlier. During the balance of the term, the project will benefit from HUD's rental assistance. Related/Wakeland will collect rents at HUD's contract level (3-bedrooms presently receive a flat rent of \$838, which is 62% of area median income; 4-bedrooms are a flat rent of \$975, which is 67% of area median income). Households, however, pay no more than 30% of their income toward rent as provided under Section 8 regulations. Upon expiration of the HUD contract, rent collections will be limited to the levels set forth in the Housing Commission's Declaration of Covenants and Restrictions.

The appraised value of the development "as is" is \$20,000,000. The value after rehabilitation at stabilized occupancy is \$24,000,000. This compares favorably with a purchase price of \$18,750,000 and a rehabilitation investment of \$4,350,000 for a total of \$22,550,000. It produces a loan-to-value including the Housing Commission's second position loan of 75%. This favorable loan-to-value is achieved due to the large equity contribution provided by tax credit financing.

The Financial Plan

Total Development Cost:

The total development cost is \$28,799,077

Appraised Value:	An estimated value at stabilized occupancy after rehabilitation is \$24,000,000. The loan-to-value ratio including the Housing Commission loan is 75%.
Security:	The Commission's loan will be secured by a second trust deed against the property at year 3. Prior to that, it will be subordinate to a construction loan until rehabilitation is complete, and a HUD 241(f) loan until it is paid off at year 3.
Debt Service Ratio:	The debt service ratio on the first trust deed is 1.09 in year one.
First Trust Deed:	CHFA will provide the first position loan in the amount of \$16,680,000, with a term of 30 years and an interest rate estimated at 6.25%
Second Trust Deed:	Housing Commission funds of \$1,200,000 at 3% interest, amortized over 55 years.
Payments on the Second Trust Deed:	Debt service on the Housing Commission's loan will be the lesser of the amortized payment or 75% of cash flow after payment of operating expenses and debt service on the first position note. The year one debt service payment is estimated at \$44,579.
Rent Restrictions:	A Declaration of Covenants and Restrictions with a 55-year term will be recorded against the property, restricting rent levels at 50% to 64% of area median income. Two units will be set aside as manager units.
Occupancy Restrictions:	Occupancy of 260 units will be restricted to households earning no more than 50% to 64% of area median income.
Recourse:	The loan will be non-recourse as provided for in the Housing Commission lending policy for tax credit projects.

Management Plan:	A Management Plan will be submitted for approval.
Operating Expense:	Operating expense is projected at \$342 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

Because the project has already received a tax exempt bond allocation from the California Debt Limit Allocation Committee and CHFA has agreed to be the issuer and credit enhancer of the bonds, there is minimal risk that the financing structure as proposed will be unsuccessful. The property has also been inspected for rehabilitation needs and cleared of any environmental or toxic concerns.

The proposed Housing Commission investment is 4% of total development costs. The loan is amortized with regular debt service payments, and a loan-to-value of 75%.

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. This risk is typically taken by the Commission in tax credit projects, and is deemed mitigated by conservative underwriting assumptions.

The Housing Commission loan will be subordinate to a construction loan during rehabilitation. Normally, following the end of construction, the Commission's deed of trust is in second position. For this loan, however, the Commission's deed will not technically be in second position for another two years, until year three. This is because a HUD 241(f) loan will remain on the title until that time. Because the Housing Commission is typically in second position and must retain foreclosure rights, the applicant will purchase title insurance over the HUD loan that in effect removes this encumbrance to the Housing Commission's loan. Under this arrangement, the Commission enjoys rights as though it were in a second position during this interim time, until the HUD encumbrance is removed.

Staff believes that the risk of this loan is minimized because the Commission's investment represents 4% of total development costs, the loan is fully amortized

with regular debt service payments and the loan to value achieved is 75%. Staff therefore recommends approval of this loan request.

ALTERNATIVE

Decline to approve this loan. Without this gap financing, Related/Wakeland would most likely not be able to complete the purchase and preserve the affordability of these units. Another purchaser would be able to raise rents to market levels upon expiration of the regulatory agreement in 2012, and could raise 5% of the units to market level under current restrictions.

Respectfully submitted,

**Signature on File
With Original Document**

Approved by,

Pat Duplechan
Director, Housing Programs

Elizabeth C. Morris
Chief Executive Officer

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- 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. Rehabilitation Plan*
 8. Appraisal Summary Letters*

*Limited Distribution. Copies are available for review at the San Diego Housing Commission office located at 1625 Newton Avenue.

ATTACHMENT 2

Project Development Summary October 18, 2000

Name: Vista Terrace Apartments
 Location: 1606 Del Sur Avenue, San Ysidro
 Description: Rental housing for very low income residents
 Sponsor: Related Companies, LLC and Wakeland Housing and Development Corp.

Unit Affordability

Total # of units: 262
 Assisted units: 260

Restricted Rents:

Type	Sq. Ft.	Number Of Units	Restricted Rent (net of Utility allowance)	Market Rate	Savings
3 bedroom @50%	1,103	42	\$671	1,150	\$479
3 bedroom @ 52%	1,103	21	\$698	1,150	\$452
3 bedroom @62%	1,103	145	\$837	1,150	\$313
4 bedroom @50%	1,247	11	\$725	1,225	\$500
4 bedroom @54%	1,247	6	\$778	1,225	\$447
4 bedroom @64%	1,247	35	\$934	1,225	\$291
Total		260			

Market rent: None. Two units are reserved as managers' units.

Affordability: 55 years

Development Cost

Total development cost: \$28,799,077
 HC development cost: \$1,200,000 (maximum)
 Total development cost per unit: \$109,920
 HC cost per (restricted) unit: \$4,615
 Subsidy per (restricted) bedroom @ 838 BR's: \$1,432

Sources of Funds

CHFA (Bonds) \$16,680,000 (30-year amortization)
 Housing Commission Loan \$ 1,200,000 (55-year amortization)
 HUD Interest Reduc. Pymt. \$ 1,895,527 (10-year amortization)
 Equity – Net Operating Income \$ 1,249,146
 Equity – 4% Tax Credit Proceeds \$ 7,774,404

Estimated Value At Completion: \$24,000,000

Pro Forma Summary

Estimated annual income:	\$2,418,601 (Year 1)
Estimated annual expense:	\$1,076,101 (Year 1)
Net Operating Income	\$1,342,500
Tax-exempt annual debt service	\$1,232,420 (1.09 ratio for Year 1)
Housing Commission debt service	\$ 44,579
Residual Receipts to Owner	\$ 65,501

ATTACHMENT 3

DEVELOPMENT TIMELINE

- October, 2000 - Loan Committee Meeting
- November, 2000 - Housing Commission Meeting
- December, 2000 - Housing Authority Meeting, CHFA Bond Closing, Acquisition
- January, 2001 – Start of Rehabilitation
- December, 2001 - Rehabilitation Complete