



## HOUSING AUTHORITY REPORT

DATE ISSUED: June 8, 2007 REPORT NO: 07-022

ATTENTION: Chair and Members of the Housing Authority  
For the Agenda of July 10, 2007

SUBJECT: Residual Receipts Loan for the Acquisition and Rehabilitation of Villa Nueva Apartments (Council District 8)

### REQUESTED ACTION:

Approve a loan of up to \$9,210,000 to fund the acquisition and rehabilitation of the 398-unit Villa Nueva Apartments.

### STAFF RECOMMENDATION:

That, subject to the conditions described below, the San Diego Housing Commission recommend Housing Authority approval of:

- a) A residual receipts loan of up to \$9,210,000 to Steadfast Villa Nueva, L.P. a California Limited Partnership, to fund the acquisition and rehabilitation of Villa Nueva Apartments, located at 3604 Beyer Boulevard; and
- b) Authorizing the President and Chief Executive Officer, or designee, to execute any and all documents necessary to make the approved loan.

### BACKGROUND:

#### The Project

Villa Nueva is an existing 398-unit affordable housing development located at 3604 Beyer Boulevard in San Ysidro. The project was built in 1970 and consists of 32 buildings on 14 acres. Villa Nueva contains 90 two-bedroom units, 272 three-bedroom units, 36 four-bedroom units, and 406 on-site parking spaces. Amenities include coin laundry facilities, 5 tot lots, a lighted basketball court, a recreation room with kitchen, and an on-site daycare center. The developer proposes to build a community center so that eight units that were originally constructed as three-bedroom units and previously taken off-line in order to be utilized for some of the current resident activities will be returned into use as residences as part of the proposed project. See Attachment 3 for a location map.

Villa Nueva has been owned and operated for over 35 years by Villa Nueva Inc., a non-profit organization established by the Order of St. Augustine of the Catholic Church. Villa Nueva has a project-based Section 8 contract that expires as of June 30, 2007, but is subject to annual renewal with the Department of Housing and Urban Development (HUD). In addition, the project has a HUD-insured mortgage that matures in October 2010. Without the involvement of the Housing Commission and the Housing Authority, it is possible that Villa Nueva would convert to market rental rates after October 2010. Further, should the property convert to market, the 264-three bedroom and 36-four bedroom units probably could not be replaced. Given its age, the property is also in need of a significant amount of work to provide for a lengthy extension of its useful life. As part of the proposed transaction, over \$57,000 per unit will be invested in the property to achieve this goal. The proposed purchase price is \$41.15 million; the "as-is" appraisal value is \$42.5 million.

Affordable Housing Impact

Under the proposed financing, Villa Nueva would restrict 10% of its units at 50% Area Median Income (AMI) (\$35,100 for a family of four), with the remaining 90% restricted at 60% AMI (\$42,120 for a family of four). In addition to the set-asides noted above, as part of the proposed transaction, a 20-year Housing Assistance Payments Contract (HAP Contract) will be obtained from HUD, assuring that the property remains affordable to the lowest income residents; as long as the HAP Contract is in place, the actual rent levels paid by tenants would be based on 30% of the household income and would not exceed the Restricted Rent values below. The current tenant characteristics information indicates that the average household share of rental payment is \$332 for a two bedroom unit, \$469 for a three bedroom unit, and \$703 for a four bedroom unit. Three units will be reserved for on-site managers and will not be occupancy restricted.

Type	AMI	Number of Units	Restricted Rent (no tenant paid utilities)	Market Rate	Monthly Savings per unit
Two Bedroom	50% AMI	9	\$790	\$1,043	\$253
Two Bedroom	60% AMI	81	\$948	\$1,043	\$95
Three Bedroom	50% AMI	28	\$878	\$1,180	\$302
Three Bedroom	60% AMI	241	\$1,053	\$1,180	\$127
Four Bedroom	50% AMI	4	\$948	\$1,385	\$437
Four Bedroom	60% AMI	32	\$1,137	\$1,385	\$248
Three Bedroom	Mgr. Unit	3	\$1,075	\$1,180	\$105
<b>Total</b>		<b>398</b>			<b>\$59,044</b>
<b>Total Annual Savings</b>					<b>\$708,528</b>

Development Team

The project will be owned and operated by Steadfast Villa Nueva L.P., a single asset entity consisting of the Steadfast Companies (Steadfast), Casa Familiar, Inc., and a to-be-selected tax credit equity investor. Steadfast completed its first affordable multifamily project in 1995 and has since been involved in the development, acquisition, refurbishment and/or management of over 20,000 multifamily residential units, more than 15,000 of which it currently has an ownership interest in and/or operates. The majority of Steadfast’s portfolio is comprised of projects that are partially or entirely designated as affordable housing. This is Steadfast’s first development proposing San Diego Housing Commission financing. Steadfast is a development partner in the following local tax credit or bond-financed projects: Cypress Cove Apartments (200 units) in Escondido; Lexington Greens Apartments (144 units) in El Cajon; Pacific Village (248 units) in San Diego; and Rio Vista (161 units) in San Ysidro.

A majority of Steadfast’s properties have been financed with tax-exempt municipal-bonds and Low Income Housing Tax Credits (“LIHTC”), with the assistance of private-sector funding and conventional financing as needed. Steadfast’s extensive experience in mixed-finance projects includes many transactions involving HUD loans or subsidies, project-based and tenant-based Section 8 assistance, HUD Interest Reduction Payments (IRP) decoupling, Mark-up-to-Market, and local jurisdiction loans and grants.

Casa Familiar (Casa) is a community-based, 501(c)(3) tax-exempt organization incorporated in the State of California in 1973. Casa was originally organized in 1968 under the name of Trabajadores de la Raza, San Diego Chapter, to serve Spanish-speaking monolingual clients in the community of San Ysidro.

June 15, 2007

Residual Receipts Loan for Villa Nueva Apartments

Page 3

Since its inception, Casa's services and target population have expanded to include all of South San Diego's population. Casa offers over fifty programs spanning the program areas of human services, community development, recreation services, technology, arts and culture and education. The San Diego Housing Commission has successfully partnered with Casa as a grant recipient for learning technology centers in San Ysidro, as part of the learning opportunity programs offered by the Resident Services Department.

Casa also serves as the managing general partner of seven affordable housing rental developments totaling 1,035 units. Six of these developments are located in the City of San Diego and have been developed in conjunction with affordable housing partners and financial or other participation by the San Diego Housing Commission. In addition to the projects that Casa owns, it manages and operates two large community facilities that are leased to it for \$1/year by the City of San Diego. Developer Disclosure Statements for Steadfast and Casa are included as Attachments 5 and 6.

### The Development

A physical needs assessment recently completed by EMG Corporation is being used as the basis for the rehabilitation scope of work. The rehabilitation work will be performed by Steadfast's affiliated construction development arm, Pacific Coast Land & Construction Company, Inc., a state licensed B-1 general building contractor. The developer has planned approximately \$19.6 million in improvements to the property that include upgraded community facilities and many energy efficiency upgrades. Exterior painting, full roof replacement at all structures, and equipment replacement at the six tot lots will be completed. Currently the seller pays for all utility costs at Villa Nueva. One of the major initiatives that the developer will pursue is the installation of solar electric power generation. Such an improvement will allow Villa Nueva to be essentially self-sustaining for electrical usage; it will improve the net operating income and reduce the community's overall energy dependency.

Interior upgrades will be based on each unit's condition. These upgrades will include energy efficiency upgrades such as replacement of all windows, including the reconfiguration of many of the existing living room window placements and installation, and enhanced weatherization, refrigerators, range/ovens and heating units. To increase the number of units suitable for handicapped households, five percent of the units will be retrofitted for current accessibility guidelines and an additional two percent of the units will be retrofitted for sight and/or hearing impaired households. Rehabilitation also will include miscellaneous repairs to meet federal Housing Quality Standards. The rehabilitation budget is based on the payment of prevailing wages which increase the labor cost values. This equates to an approximate value of 7 % of this project's construction hard costs. In the event that such wages are not applicable to the project, an appropriate budget reduction will be made.

The development plans include the demolition of the existing community room, property management office and child care facility and replacement with a newly designed community room to increase planned resident services and improve functionality of these spaces. Eight three-bedroom units previously taken out of service and utilized for after-school and computer-related activities will be returned into service for occupancy thus increasing the neighborhood supply of rentals by eight units. The three bedroom unit configurations are still intact and habitable. The developer's analysis has determined that the anticipated increase in rental income provided by the eight units will be sufficient to off-set the investment expense of the proposed new construction community facility.

June 15, 2007

Residual Receipts Loan for Villa Nueva Apartments

Page 4

The proposed rehabilitation also provides for the installation of a free WiFi high speed internet service available to all households by One Economy. One Economy is a multi-national nonprofit organization formed to bring broadband services to low-income households and has developed "The Beehive," a multilingual web portal.

Currently it appears that all residents qualify for residence by income and household size. The most recent data received indicates that permanent relocation may be necessary for nine families that have incomes from 61% to 68% of AMI. It is also anticipated that some families will require temporary relocation during the course of the rehabilitation which will include the retrofitting of twenty units to meet ADA accessibility requirements. A detailed relocation plan will be completed prior to final loan approval. The developer has agreed that it will reduce the Housing Commission loan, by any amount that may remain after completion of the rehabilitation.

Casa is a very experienced local entity that intends to offer a wide range of social services to include, but not limited to child care, teen center, after school tutoring and other activities, technology learning services, youth leadership, and adult services.

To assure that the anticipated rehabilitation and relocation will be completed, any overrun of those expenses or of temporary or permanent relocation expenses will be paid out of the developer fee. The final rehab construction contract will require the approval of the Housing Commission Chief Executive Officer.

#### Proposed Funding Request

The total development cost of the project is estimated to be approximately \$77 million (\$193,000 per unit) which includes capitalized reserves. Proposed permanent financing sources would consist of first position tax-exempt bond financing in the amount of \$37,500,000, a \$9,210,000 second position residual receipts loan from the San Diego Housing Commission, \$25,667,300 from four-percent tax credits, \$3,742,500 from operating cash flow income during the construction period, and a deferred developer fee of \$353,800.

The San Diego Housing Commission \$9,210,000 second position loan is a 3%, residual receipts loan. The total loan is the largest loan amount requested from the San Diego Housing Commission. Residual receipts payments are not anticipated until after payment of the deferred developer fee (estimated at Year One). Allowing Villa Nueva to retain 50 percent of the residual receipts strengthens the developer's ability to maintain the building and provide tenant services with rent revenues. Debt service on the Housing Commission loan will be 50% of residual receipts. Payments will equal the greater of 50% of residual receipts or \$20,859 which is equal to half of the estimated residual receipts at Year One. In the event the residual receipts are less than \$20,859, the payment to the Housing Commission will be satisfied by 100% of residual receipts.

Any unpaid principal and accrued interest of the Housing Commission loan would be due and payable in a balloon payment at the earlier of the end of the 55-year loan term or when the development is refinanced.

It is anticipated that the project will receive a bond allocation at the July meeting of the California Debt Limit Allocation Committee (CDLAC) and the final authorization to issue bonds for project would come before the Housing Commission and Housing Authority in August and September. The \$45

million allocation that will be sought from CDLAC is approximately 20% higher than the amount for which the project is currently being underwritten (\$37.5 million). The developer has requested this cushion to account for possible increases in the bond amount due to increases in construction costs or decreases in the assumed interest rate. The bond amount that is ultimately issued will be based upon project costs, revenues, and interest rates at the time of bond issuance.

This commitment is contingent upon HUD acceptance of the requested 20-year HAP Contract extension from HUD. The contract rents will be at 50% and 60% AMI and will preserve the project affordability. Without the HAP Contract in place the project cannot meet its debt service obligations.

The San Diego Housing Commission loan will be fully secured by the value of the property. Preliminary sources of funding are summarized in the following table:

<b>Proposed Permanent Financing Sources</b>	
Housing Revenue Bonds	\$37,500,000
Federal Tax Credits	\$25,667,300
SDHC Loan	\$9,210,000
Construction Period Income	\$3,742,500
Deferred Developer Fee	\$353,800
<b>Total</b>	<b>\$76,473,600</b>

**FISCAL CONSIDERATIONS:**

This loan would result in the expenditure of \$9,210,000 of San Diego Housing Commission funds for rental housing production. The developer is responsible for the payment of costs for the financing of the \$9,210,000 loan including the Commission's construction monitoring fee.

**PREVIOUS COUNCIL and/or COMMITTEE ACTION:** The project received approval for certain preliminary items in order to initiate issuance of Multifamily Housing Revenue Bonds at the March 20, 2007 meeting of the Housing Authority and the City Council.

**COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:**

On February 20, 2007, an informational item was presented to the San Ysidro Planning and Development Group on the proposed acquisition and rehabilitation of the project. On March 20, 2007, this group approved the project by a vote of 9-0 with one abstention.

The development team is working with residents to minimize the impacts of the proposed project. Casa Familiar previously met with the residents and interested members of the community on two occasions in January to determine the future direction of social services to be provided at Villa Nueva Apartments. The information will be used to plan for the proposed manner of social services delivery.

**ENVIRONMENTAL REVIEW:**

The City of San Diego, as the Responsible Entity, has issued a Determination of Categorical Exclusion pursuant to 24 CFR Part 58.35(a)(3)(ii) of the National Environmental Policy Act. Further, in accordance with the Statutory Worksheet, federal funds may be drawn down for the project without the processing of a Request for Release of Funds. In addition, the City, as lead agency under the California Environmental Quality Act (CEQA), issued a Determination of Environmental Exemption for the project pursuant to Section 15301 of the CEQA guidelines (existing facilities).

**KEY STAKEHOLDERS & PROJECTED IMPACTS:**

The residents of Villa Nueva (390 Very low and low income families) are stakeholders. Steadfast and Casa will acquire and rehabilitate the project. The seller of the property is Villa Nueva Inc., a non-profit organization established by the Order of St. Augustine of the Catholic Church. The tax credit investor and mortgage lender(s) have not yet been selected.

Respectfully submitted,

Approved by,

Cissy Fisher  
Director of Housing Finance & Development

Elizabeth C. Morris  
President & Chief Executive Officer

**Attachments:**

1. Development Summary
2. Development Timeline
3. Location Map
4. General Application Forms
5. Steadfast Developer Disclosure Statement\*
6. Casa Familiar Developer Disclosure Statement\*

\*Distribution of these attachments may be limited. Copies available for review during business hours at the Housing Commission offices at 1122 Broadway, Suite 300, San Diego, California.

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**ATTACHMENT 1  
DEVELOPMENT SUMMARY  
June 15, 2007**

Name: Villa Nueva Apartments

June 15, 2007

Residual Receipts Loan for Villa Nueva Apartments

Page 7

Location: 3604 Beyer Boulevard, San Ysidro  
Description: Rental housing for very low-income and low-income families  
Sponsor: Steadfast Villa Nueva, L.P.

### Unit Affordability

Total # of units: 398  
Assisted units: 398  
Restricted rents: 90 Two-bedroom @ \$790 (50% AMI), \$948 (60% AMI)  
272 Three-bedroom @ \$878 (50% AMI), \$1,053 (60% AMI)  
36 Four-bedroom @ \$948 (50% AMI), \$1,137 (60% AMI)

Market rent: Two-bedroom units rent for approximately \$1,043 per month  
Three-bedroom units rent for approximately \$1,180 per month  
Four-bedroom units rent for approximately \$1,385 per month

Percent of AMI: 41 units at 50 percent or less of Area Median Income  
357 units at 60 percent or less of Area Median Income

Affordability Period: 55 years

### Development Cost

Total development cost: \$76,473,600  
HC development cost: \$ 9,210,000  
Total development cost for 1 unit: \$ 192,145  
HC cost for 1 unit: \$ 23,140  
HC subsidy per bedroom (1,140 br's): \$ 8,080

### Sources of Funds

Tax Exempt Bonds \$ 37,500,000  
Housing Commission Loan \$ 9,210,000  
4% Tax Credits \$ 25,667,300  
Construction Period Rent Income \$ 3,742,500  
Deferred Developer Fee \$ 353,800

### Pro Forma Summary

Estimated annual income: \$ 5,050,808 (year 1 aggregate)  
Estimated annual expense: \$ 2,335,432 (year 1 aggregate)  
Annual debt service (1<sup>st</sup>): \$ 2,227,858 (year 1 aggregate)  
Estimated residual receipts \$ 20,859 (year 1)

**ATTACHMENT 2**

**VILLA NUEVA APARTMENTS**

**ESTIMATED DEVELOPMENT TIMELINE**

May 22, 2007	Recommendation of loan approval by the Housing Commission Loan Committee
June 15, 2007	Housing Commission recommendation for approval
July 10, 2007	Loan to the Housing Authority for approval
July 25, 2007	California Debt Limit Allocation Committee (CDLAC) Meeting
August 14, 2007	Loan closing/Acquisition Date
September 1, 2007	Start of rehabilitation
December 31, 2008	Completion of rehabilitation, placed in service