



REPORT

DATE ISSUED: December 29, 2014

REPORT NO: HCR15-016

ATTENTION: Chair and Members of the San Diego Housing Commission
For the Agenda of January 16, 2015

SUBJECT: Village North Senior Garden Apartments – Property Acquisition

COUNCIL DISTRICT: 6

REQUESTED ACTION

Approve the acquisition and rehabilitation of Village North Senior Garden Apartments under the terms and conditions described in this report.

STAFF RECOMMENDATION

That the San Diego Housing Commission (Housing Commission) Board approve and recommend that the Housing Authority of the City of San Diego (Housing Authority) authorize the President & Chief Executive Officer (President & CEO), or designee, to perform the following actions:

- 1) Execute any and all documents necessary to allow the Housing Commission to acquire the property located at 7720 Belden Street, San Diego, CA 92111, on terms and conditions described in this report, as approved by General Counsel of the Housing Commission;
- 2) Ratify the execution of a Purchase and Sale Agreement with Village North, LLC, and Brian D. Malone and Jeanette C. Malone, Co-Trustees U/D/T (Seller), dated October 13, 2014;
- 3) Ratify the due diligence budget in an amount not to exceed \$82,115 to investigate the condition of the property including, but not limited to, appraisal, market study, environmental investigation, American Land Title Association (ALTA) survey, physical needs assessment, termite inspection, compliance with the Americans with Disability Act (ADA), tenant relocation, parking study and third-party property management reports;
- 4) Upon satisfactory completion and evaluation of the property during the due diligence period, take such actions and perform such acts as are necessary to acquire the 1.41-acre property with improvements for a negotiated price not to exceed \$14,775,000. The Seller shall provide free and clear title upon acquisition of the property;
- 5) Execute and record an affordability covenant against the property for 55 years, with all of the units remaining affordable at or below 80 percent of the San Diego Area Median Income (AMI);
- 6) Ratify the funding of the refundable escrow deposit of \$100,000 in accordance with the terms outlined in the Purchase and Sale Agreement, which will be applicable to the purchase price and which deposit will become non-refundable upon the expiration of the due diligence period;

- 7) Approve placing into escrow, within three days of the Housing Commission Board approval, an additional refundable deposit of \$47,500 in accordance with the terms outlined in the Purchase and Sale Agreement, which will be applicable towards the purchase price and which deposit will become non-refundable upon the expiration of the due diligence period;
- 8) Authorize the Housing Commission to provide property management services, retain the existing property management company, or procure a new property management company through a competitive Request for Proposal process;
- 9) Authorize the purchase of the property and associated closing costs, utilizing up to \$15,000,000 of U.S. Department of Housing and Urban Development (HUD) Moving to Work (MTW) Funds;
- 10) Substitute approved funding sources for Village North Senior Apartments with locally generated revenue (lease or rental) and/or any other available funds as deemed appropriate, contingent upon budget availability, and further authorize the President & CEO, or designee, to take such actions as are necessary, convenient and/or appropriate to implement these approvals by the Housing Commission and Housing Authority, upon the advice of General Counsel;
- 11) Approve all development/project budgets associated with this potential acquisition. This includes the transfer and/or reallocation of funds between any and all funding use line items within the total approved development/project budget provided the total project/development budget amount after any and all transfers/reallocations does not exceed the previously approved budget total, in any instances when the operational need(s) arise and/or when such actions are to the benefit of the Housing Commission and its mission;
- 12) Apply for and obtain a conventional loan to fund the repairs noted in the November 30, 2014, Gafcon report and any related financing costs necessary to obtain said financing. The loan shall conform to Housing Commission underwriting standards referenced within this Housing Commission Board report and shall be competitively procured upon favorable term, rate, and loan-to-value parameters as set forth within this Housing Commission Board report for the property;
- 13) Enter into an agreement with an appropriately selected general contractor, in accordance with Housing Commission procurement procedures, to perform any and all repairs identified in the 2014 Gafcon report, without further action by the Housing Commission and/or the Housing Authority, Boards provided that such agreements are within the parameters and budget set forth within this report and approved by the Housing Authority; and
- 14) Enter into agreement[s] with an appropriately selected architectural team or teams, including architects and engineers (Civil and Structural), necessary to prepare plans and specifications and obtain building permits without further approvals from the Housing Commission and/or Housing Authority Boards, provided that such agreements are procured in accordance with the Housing Commission's procurement policy and provided further that such agreements are within the budget approved by the Housing Authority in this action.

SUMMARY

Village North Senior Garden Apartments (Village North Senior) is a 120-unit senior apartment complex located on a 1.41-acre site at 7720 Belden Street in the Clairemont Mesa Area (Attachment 1 – Location Maps). The property is located northwest of junction of State Route 163 and Interstate 805.

The property was developed in 1986 and is currently owned by Village North, LLC, and the Seller. The property consists of seven wood frame two-story buildings with slab on grade concrete foundations, a laundry room, leasing office and community room. All of the units are one-bedroom, one-bathroom units with an average size of 500 square feet.

Property Name:	Village North Senior Garden Apartments
Street Address:	7720 Belden Street
City, State, Zip Code:	San Diego, CA 92111
Primary Use:	Residential Apartments for Seniors
Year Built:	1986
Number of Buildings:	Seven
Number of Stories:	Two
Number of Units:	120 – 1-Bedroom/1-Bathroom Units
Number of Onsite Parking Spaces:	65

Housing Affordability

Village North Senior will provide 120 units at rents affordable to individuals and families earning 80 percent or less of AMI (\$44,200 for a household of one).

The Housing Commission will commit federal Project-Based Housing Vouchers to 20 percent of the units to be used to address the Housing Commission’s ongoing commitment to create additional Permanent Supportive Housing through HOUSING FIRST – SAN DIEGO, the Housing Commission’s three-year Homelessness Action Plan. HOUSING FIRST – SAN DIEGO was presented to the Housing Commission Board on November 21, 2014 (HCR14-066).

Deal Terms

The Housing Commission executed a Purchase and Sale Agreement (PSA) with the seller to allow staff to investigate the property during the due diligence period, which started on October 13, 2014, and is scheduled to expire on February 10, 2015, with an optional extension to March 12, 2015. The key PSA deal terms are as follows:

Purchase Price: The purchase price for the property is \$14,775,000, which has been supported by an appraisal prepared by Colliers International.

Due Diligence Period: The due diligence period is 120 calendar days from the effective date of the PSA (October 13, 2014). There is an automatic 30-day extension if the Housing Authority does not formally approve the PSA by resolution prior to February 10, 2015.

Broker’s Commission: The seller will pay CB Richard Ellis (Housing Commission’s Broker) a commission in the amount of \$223,750 (1.5 percent)

Earnest Money Deposit: The Housing Commission has placed a refundable deposit of \$100,000 into escrow with First American Title Company. If the Housing Commission elects to proceed with the purchase of the property, an additional refundable \$47,500 deposit will be due within three business days of the Housing Commission Board approval. The deposits will become non-refundable upon expiration of the due diligence period, and all deposits will be credited against the purchase price.

Close of Escrow: The PSA provides for the Close of Escrow occurring no later than thirty (30) days after the Due Diligence or Extended Due Diligence period expires.

Proposed Schedule of Performance

The following are key project milestones:

Action	Anticipated Completion
Purchase and Sale Agreement Effective Date	October 13, 2014
Housing Commission Real Estate Committee Meeting	December 16, 2014
Housing Commission Board Meeting	January 16, 2015
Housing Authority / City Council Meeting	February 10, 2015
Due Diligence Period Ends	February 10, 2015
Closing Date without Optional Due Diligence Extension	March 12, 2015

Optional Due Diligence Period

In the event that the Housing Authority does not approve this action on or before February 10, 2015, an automatic 30- day extension to the Due Diligence period will go in to effect, extending the closing date to April 13, 2015, subject to Housing Authority approval. The transaction will not proceed without Housing Authority approval, however.

Due Diligence

Housing Commission staff has engaged consultants to prepare the following due diligence reports (Attachment 2):

Appraisal - Colliers International (appraiser) concluded the “as is” value of the property’s fee simple interest is \$14,800,000. That valuation supports the negotiated purchase price.

Building Condition Assessment Report – A multidisciplinary team from Gafcon Inc. conducted an assessment of the current physical condition of the property and improvements. Specifically, the team inspected the site, structural, mechanical, building envelope, electrical, plumbing, interiors, landscaping, roof systems, accessibility and life safety. Areas of inspection included unit interiors, exterior stairways, leasing office, community room, electrical and mechanical rooms, the building exterior and site improvements. Life safety, code violations and accessibility compliance issues also were reviewed. A report was prepared by Gafcon that summarizes the existing conditions of the property, determines the remaining useful life of the building’s components, identifies immediate and future repairs and estimates the costs for upgrades.

The report concluded that overall the property is in good physical condition for its age.

A list of the capital improvements in order of priority are included below:

- Priority 1 - \$1,008,838 - ADA items for both individual units and common areas, including all new smoke alarms/detectors and carbon monoxide alarms/detectors within individual units
- Priority 2 - \$436,084 - Landscaping, replacing Common Area HVAC, replacing fencing and gates, and re-coating unit balconies
- Priority 3 - \$1,481,570 - Slurry and restriping of parking lot, removing and replacing all windows and sliding glass doors with dual pane
- Priority 4 - \$354,426 - Paint stucco, remove and replace unit ranges
- Priority 5 - \$1,161,600 - Units: new paint, carpet, cabinetry, appliances, light fixtures, flooring

Staff is recommending the Priority 1 items be addressed first and that the remaining items be considered as part of a future rehabilitation. Staff is recommending the funds to pay for repairs shall come from a combination of tax-exempt bonds and 4 percent low-income housing tax credit equity and a conventional mortgage with a debt service coverage ratio no greater than 1.15, a Loan-to-Value not to exceed 90 percent, a term no less than 30 years, with loan closing costs that are consistent with market conditions and interest rates at market at the time of the closing of the conventional loan, to be repaid with the property's cash flow. Using these funds will allow the Housing Commission to renovate the project and not impact any of its other housing programs sources of funds. Upon approval from the Housing Authority, staff will initiate appropriate procurement activities to select architectural consultants and to obtain a qualified General Contractor to complete the services. -It is anticipated that the renovations will take up to 12 months to complete.

Zoning Conformance – The property is located in the Clairemont Mesa Community Plan Area. On February 10, 1983, the City of San Diego Planning Commission issued a Conditional Use Permit that requires at least one occupant of each unit to be 62 years of age or older. The age restriction was later amended to allow persons 55 years of age or older to occupy units (Civil Code Section 51.3).

Phase I Environmental Site Assessment – Leighton and Associates Environmental Engineers conducted a Phase I Environmental Site Assessment of the Property to determine if there are any recognized environmental conditions (REC) present as a result of the current or historical land uses. The assessment revealed no evidence of RECs in connection with the property.

Pro forma

Housing Commission staff prepared a draft project pro forma (Attachment 3) that details overall financial results for up to 15 years of operations, including capital costs for acquisition, rehabilitation and relocation.

The pro forma indicates a total investment of \$15,170,000. This number includes \$14,775,000 for the acquisition of the land and buildings, \$82,115 for due diligence, \$28,585 for closing costs, \$114,300 for other soft costs, and \$170,000 for Fiscal Year 2015 operating expenses.

The following outlines some of the operating assumptions based on the historical financials provided by the seller:

- a. Rental Revenue - Current rents are \$859 for a one-bedroom and one-bathroom apartment, which is below the 80 percent AMI affordability threshold. Residential rent escalation is assumed to be 2 percent per year, and the vacancy rate is assumed to be 5 percent.
- b. Other Revenue - The property generates other revenue in the amount of \$21,600 per year, or \$180 per unit per year. This is composed of laundry and miscellaneous income.
- c. Operating Expenses – Baseline operating expenses for Fiscal Year 2015 is estimated at \$508,684, or \$4,239 per unit per year, which includes administration fees, utilities, operating and maintenance, taxes and insurance and payroll. In addition, the pro forma assumes a 3 percent inflator for operating expenses through year 15.
- d. Replacement Reserve – A replacement reserve account will set aside \$42,000, or \$350 per unit, annually. These reserves fund future capital improvements to the building and will increase 3 percent annually.

FISCAL CONSIDERATIONS

The proposed funding sources and uses approved by this action were not included in the Housing Authority-approved Fiscal Year 2015 Housing Commission budget. Approving this action will authorize the Housing Commission to expend \$15,170,000 in addition to the approved Fiscal Year 2015 budget. Fiscal Year 2016 sources and uses will be approved as part of the Fiscal Year 2016 Housing Commission Budget

Approving this action will result in the acquisition of 120 affordable rental units at an average cost of \$125,000 per unit, including soft costs.

Fiscal Year 2015 funding sources approved by this action will be as follows:

Moving to Work Funds - \$15,000,000
Rental Revenue from Village North Senior Garden Apartments Operations - \$170,000
Total Fiscal Year 2015 Funding Sources - \$15,170,000

Fiscal Year 2015 funding uses approved by this action will be as follows:

Due Diligence Consultants Costs - \$82,115
Property Acquisition - \$14,775,000
Closing Costs - \$28,585
Other Soft Costs - \$114,300
Operating Expenses After Acquisition - \$170,000
Total Fiscal Year 2015 Funding Uses - \$15,170,000

Fiscal Year 2016 funding sources anticipated by this action are as follows:

Loan Proceeds and Rental Revenue – Up to \$1,758,838

Fiscal Year 2016 funding uses anticipated by this action will be as follows:

Architectural & Engineering Costs – Up to \$250,000
Property Rehabilitation Costs – Up to \$1,508,838
Total Funding Uses – Up to \$1,758,838

PREVIOUS COUNCIL and/or COMMITTEE ACTION

On December 16, 2014, the Housing Commission's Real Estate Committee considered information presented by Housing Commission staff regarding the acquisition and rehabilitation of Village North Senior Garden Apartments. At the meeting, the Housing Commission Real Estate Committee recommended approval to the Housing Commission Board to acquire and rehabilitate the property.

On November 21, 2014, HOUSING FIRST – SAN DIEGO, the Housing Commission's three-year Homelessness Action Plan, was presented as an informational report to the Housing Commission Board.

KEY STAKEHOLDERS and PROJECTED IMPACTS

Key stakeholders for this potential acquisition include the Seller, the residents of Village North Senior Garden Apartments, the Housing Commission, the Clairemont Mesa community, and the City of San Diego.

ENVIRONMENTAL REVIEW

This proposed acquisition and rehabilitation is categorically exempt from the requirements of the California Environmental Quality Act (CEQA) pursuant to Section 15301 of the State CEQA Guidelines because Village North Senior Garden Apartments is an existing facility and the proposed actions do not involve expansion of the existing use. The project meets the criteria set forth in CEQA Section 15301(a), which allows for exterior and interior alterations of existing facilities. The activities described herein are categorically excluded from the Nation Environmental Policy Act (NEPA) pursuant to Section 58.35(a)(3) of Title 24 of the Code of Federal Regulations.

Respectfully submitted,

Michael Pavco

Michael Pavco
Director
Real Estate Division

Approved by,

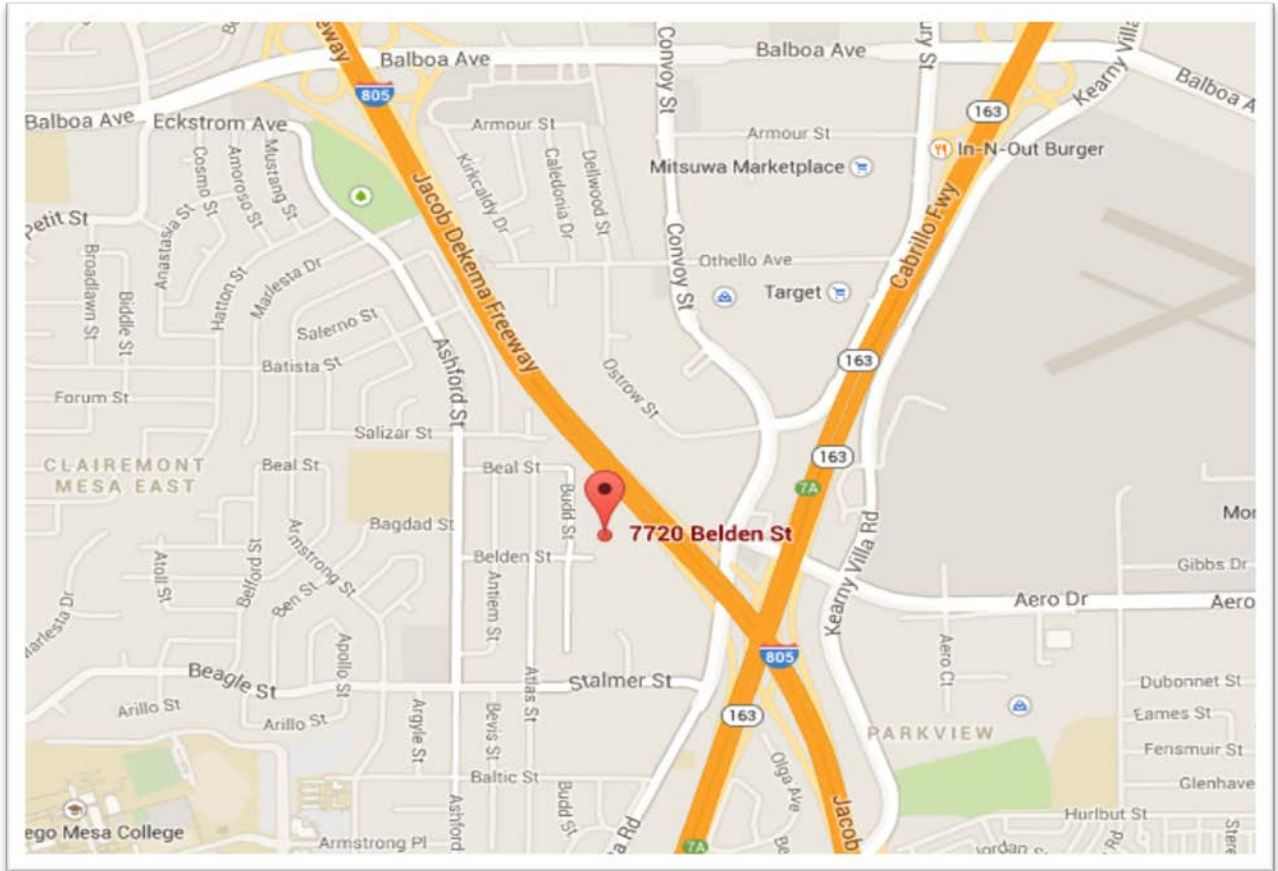
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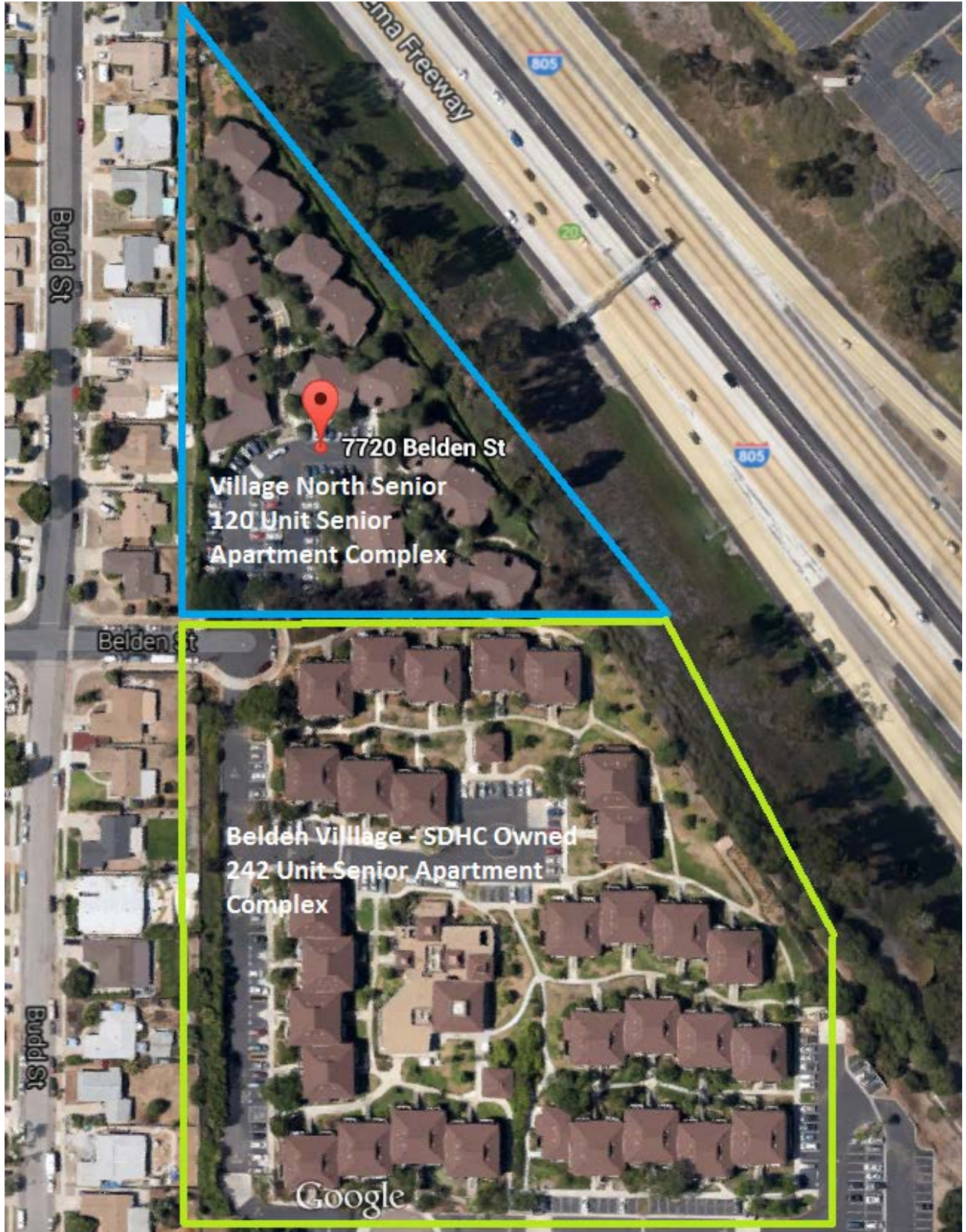
Deborah N. Ruane
Senior Vice President
Real Estate Division

Attachments: 1) Location Maps
2) Predevelopment Budget
3) Pro forma

Hard copies are available for review during business hours in the main lobby of the San Diego Housing Commission offices at 1122 Broadway, San Diego, CA 92101 and at the Office of the San Diego City Clerk, 202 C Street, San Diego, CA 92101. You may also review complete docket materials on the San Diego Housing Commission website at www.sdhc.org.

Village North Senior Site Map





7720 Belden St
Village North Senior
120 Unit Senior
Apartment Complex

Belden Village - SDHC Owned
242 Unit Senior Apartment
Complex

Google

Village North Senior- Predevelopment Budget
Updated 12-11-14

		Notes
Appraisal		\$5,000
Market Study		\$5,000
ALTA Survey		\$15,000
Physical Needs Assessment		\$19,500
Termite Inspection		\$500
Phase I		\$8,650
Other Consultants		\$2,000
Title Report		\$2,000
Legal		\$5,000
Relocation Study		\$12,000
Contingency	10%	\$7,465
TOTAL Due Diligence		\$82,115
Lender Due Diligence Deposit		\$147,500
TOTAL		\$229,615

Village North Senior

Draft Date: 01/07/2015 - 11:37 AM

Primary Data

PROJECT SUMMARY			
Project Name	Village North Senior	New Construction or Rehab	Rehab
Project Address	7720 Beldon Street	Residential Rental SF	- sf
Year Built	1986	Residential Non-Rentable SF	-
Number of Units	120	Subtotal Residential SF	- sf
Site Acreage	1.41		
Density / Acre	85.11	Commercial / Retail / Office Rentable SF	sf
Owner	San Diego Housing Commission	Commercial / Retail / Office Non-Rentable SF	-
		Subtotal Commercial SF	-

Income and Unit Mix Assumptions

INCOME ASSUMPTIONS												
UNIT MIX & RENTAL INCOME												
Unit Type	Quantity	Quantity	Percentage	Net	Total	Market	Projected	Current Avg.	Utility	Net	Monthly	
Beds/Baths	of Bedrooms	of Units	of Total	Area (SF)	Area (SF)	Rent	Rents	Rents	Allowance	Rent	Income	
Studio	0	0	0.0%	0	-	\$0	\$0	\$0	\$0	\$0	\$0	
1/1	1	120	100.0%	0	500	\$859	\$859	\$859	\$0	\$859	\$103,080	
2/2	0	0	0.0%	0	-	\$0	\$0	\$0	\$0	\$0	\$0	
3/1	0	0	0.0%	0	-	\$0	\$0	\$0	\$0	\$0	\$0	
3/2	0	0	0.0%	0	-	\$0	\$0	\$0	\$0	\$0	\$0	
4/2	0	0	0.0%	0	-	\$0	\$0	\$0	\$0	\$0	\$0	
MGR (Non Rev)	0	0	0.0%	440	-	\$0	\$0	\$0	\$0	\$0	\$0	
Total/Average	1	120	100.0%	0	500	\$859	\$859	\$206.16			\$103,080	

Other Income			
Item	Per Unit	Per Unit	Total
	Per Month	Per Year	Annual
Laundry Income	\$10	\$120	\$14,400
Other Income	\$5	\$60	\$7,200
Total other income/month			\$21,600

Income Summary	
Annual Gross Income	\$1,236,960
Other/Commercial Income	\$21,600
Gross Income	\$1,258,560
Vacancy 5.0%	\$62,928
Effective Gross Income	\$1,195,632

Occupancy Assumptions	
Construction Period Occupancy	90.0%
Stabilized occupancy	95.0%
Monthly Ramp Up	100.0%
Annual Turnover Ratio	100%

Commercial Income	
Escalator for Income yrs 1-20:	2.0%
Escalator for Income yrs 20-40:	2.0%
Escalator for Expenses	3.0%

Expense Assumptions

EXPENSE ASSUMPTIONS			
Category	Per Unit	Per Unit	Total
	Per Year	Per Month	Annual
Administrative & Legal	\$451	\$38	\$54,105
Payroll	\$688	\$57	\$82,566
Advertising & Promotions	\$101	\$8	\$12,163
Utilities	\$630	\$53	\$75,642
Maintenance	\$918	\$77	\$110,194
Capital Repairs	\$962	\$80	\$115,410
Insurance & Taxes	\$138	\$12	\$16,604
Replacement Reserve	\$350	\$29	\$42,000
TOTAL OPERATING EXPENSES	\$4,239	\$353	\$508,684

4 MONTH OPERATIONAL COST	#####	#####
Total 4 month Operational Cost	#####	##### Rental Revenue

Sources & Uses of Funds

SOURCES & USES		
Moving to Work Funds	\$15,000,000	\$125,000
FY 2015 Rental Income	\$170,000	\$1,417
Total Sources	\$15,170,000	\$126,417

Transaction & Building Costs			
	Total	Per Unit	Source
ACQUISITION COSTS	\$14,775,000	\$123,125	
DUE DILIGENCE COSTS	\$82,115	\$684	
SOFT COSTS	\$114,300	\$953	
CLOSING COSTS	\$28,585	\$238	
FY 2015 Operating Expenses	\$170,000	\$1,417	
Total Uses	\$15,170,000	\$126,417	

PROPERTY VALUATION	
Appraisal	
NOI	686,948
Cap Rate	4.65%
Value	14,775,000
Date of Valuation	
Value/Door	123,125

REVERSION ASSUMPTION	
Reversion Year	15
Reversion NOI	808,181
Assumed Cap Rate	5.65%
Total Value	14,305,622
Value/Door	119,214