



Good Neighbors

San Diego  
Housing Commission

# REPORT

**DATE:** For the Agenda of May 10, 2002

**ITEM 106**

**REPORT NO:** HCR02-035

**SUBJECT:** Loan to a Limited Partnership Between St. Stephens Church of God in Christ and The Related Companies of California for the Construction of St. Stephens Senior Apartments (Council District 4)

## SUMMARY

**Issue:** Should the Housing Commission recommend Housing Authority approval of a \$677,158 loan to a partnership of St. Stephens Church of God in Christ and The Related Companies of California (the partnership) for construction of the 50-unit St. Stephens Senior Apartments?

**Recommendation:** Recommend Housing Authority approval of a residual receipts loan of \$677,158 to the partnership for financing construction of a 50-unit rental housing development located at 5625 Imperial Avenue in the San Diego community of Encanto. This loan is contingent upon the award of nine percent tax credits to the project.

**Fiscal Impact:** If this development receives an allocation of at least \$4,565,976 in federal and state tax credit financing during calendar year 2002, an auditor's certificate committing up to \$677,158 of HOME and Housing Trust Fund funds will be issued.

**Previous Related Actions:** On April 30, 2002, the Loan Committee reviewed the proposed \$677,158 Housing Commission loan and recommended it to the Housing Commission.

**Future Related Action:** If this recommendation is approved by the Housing Commission, final approval to provide a Housing Commission loan will be sought at the May 28, 2002, Housing Authority meeting.



**Affordable Housing Impact:** Of the 50 units, 49 would be affordable and restricted to households with incomes well below 50 percent of Area Median Income (one unit would be the manager's unit).

Below is an outline of estimated initial rents for the proposed development based on Housing Commission rent rates.

Unit Size	No. of Units	Rent Levels @ 28% of AMI	Rent Levels @ 38% of AMI	Rent Levels @ 42% of AMI	Estimated Market Rate Rents	Estimated Rent Savings Annually
one-bedroom	5	\$339	-	-	\$754	\$24,900
one-bedroom	10	-	\$452	-	\$754	\$36,240
one-bedroom	34	-	-	\$508	\$754	\$100,368
one-bedroom	1	-	-	-	-	manager unit
<b>Total</b>	<b>50</b>					<b>\$161,508</b>

**HOME Program Compliance:** A loan to the partnership for construction of rental housing for seniors is an eligible activity under the HOME Program. Proposed rents for the 49 affordable units are below those required by HOME. Six of the units would be HOME-assisted and HOME-funded. HOME-funding of six units does not trigger a requirement for the developer to pay Davis-Bacon wage rates, which take effect for HOME-funded developments of 12 or more units.

**Environmental Review:** The development is subject to review pursuant to the requirements of the California Environmental Quality Act (CEQA) and the National Environmental Policy Act (NEPA), which will be completed prior to release of funds.

**Transportation Study:** The City of San Diego Land Development Review Department determined that a transportation plan is not required for this site. The developer would be required to make right-of-way improvements at Imperial Avenue.

## **BACKGROUND**

As defined by the U.S. Department of Housing and Urban Development (HUD), an elderly household is a one or two person household in which the head of the household is at least 62 years of age. According to the San Diego Association of Governments (SANDAG) for the period between 2000 and 2020, one of the fastest growing segments of the regional population will be those 65 years old and older. SANDAG expects a 74 percent increase in the elderly segment of the population in a region where overall growth is predicted to be 23 percent over the same period.

The percentage of low-income elderly residents paying more than 30 percent of household income for rent mirrors that of low-income renters as a whole, at approximately 73 percent. However, it is difficult for low-income seniors to compete with the general population for decent rental housing because they are largely single, unemployed, and living on limited fixed incomes. The proposed development targets very low-income seniors with modest housing needs (those who typically reside in single-room-occupancy (SRO) hotels, group housing, efficiency apartments, and small one-bedroom dwellings) and links very low rents with easy access to transportation, health care facilities, personal emergency response, housekeeping assistance, meals, and social service providers.

Council District 4, the Southeastern Development Corporation (SEDC), and the local planning group reviewed the conceptual drawings of the proposed improvements. On September 17, 2001, the Encanto Neighborhoods Community Planning Group voted its approval of the proposed development. The developer applied for an amendment to the existing Conditional Use Permit to allow the addition of 50 one-bedroom apartments to the parcel. The site currently hosts 60 units of affordable housing for seniors constructed by St. Stephens Church of God in Christ in 1993.

## **DISCUSSION**

### The Borrower

The partnership would be the borrower. The proposed development would be the first for the partnership and would be its sole asset. The development entity for St. Stephens Senior Apartments would be a limited partnership formed between an affiliate of The Related Companies of California, LLC (the administrative general partner) and St. Stephens Retirement Center, Inc. (the nonprofit managing general partner). Based in Irvine, California, The Related Companies of California, LLC (Related) would provide project management. Related is a for-profit limited liability company specializing in the development of affordable housing. The organization has developed approximately 5000 units of affordable housing in California since its establishment in 1989. St. Stephens Retirement Center, Inc. (SSRC) is a 501(c)(3) nonprofit organization founded in 1979. Part of the corporate mission of SSRC is to develop housing opportunities and social services for low-income elderly and

handicapped residents of San Diego. The financial statements of SSRC and Related were reviewed by staff and found to be satisfactory. (See Applicant Financial Statements - Attachment 7.)

The proposed development would be the second for SSRC. The nonprofit owns and operates an existing 60 units of senior housing at the site, completed in 1993, that were funded by an approximately \$3.5 million loan of HUD 202 program funds, a grant of \$250,000 from the Housing Commission, and a residual receipts loan of \$112,000 from the Housing Commission. SSRC is in compliance with the terms of its Housing Commission loan and grant.

In 2000 and 2001, Related was the developer and limited partner for two acquisition and rehabilitation projects in San Diego. Vista Terrace Hills is a 262-unit affordable rental housing development for families, located in San Ysidro, funded in part by a \$1.2 million Housing Commission loan. Coronado Terrace is a 312-unit affordable rental housing development for families, located in the Otay-Nestor area, funded in part by a \$1.4 million Housing Commission loan. Both developments are complete and Related is in compliance with the terms of its Housing Commission loans.

The architect for the proposed development is Newport Beach-based Perlman Architects. The developer's legal counsel is provided by the Los Angeles-based firm of Mayer, Brown, & Platt. Management of the proposed development would be provided by Related Management Company, LP (RMC), the management arm of Related. Founded in 1974, RMC currently manages over 5000 residential units in California. RMC currently manages Related's San Diego developments.

### The Development

St. Stephens Senior Apartments would be located on an approximately 2.4-acre parcel at the south side of Imperial Avenue between Valencia Parkway and 55th Street. (See Location Map - Attachment 1.) The developer has complete site control because the land is owned by St. Stephens Retirement Center, Inc. The development would be within the Central Imperial Redevelopment Project Area; the parcel was previously designated for a seniors project in the Southeast Community Plan. The development would share the site with the Lazzell Residence, an existing 60-unit rental housing complex for seniors. A HUD 202 loan to the Lazzell Residence is secured by the value of the parcel and the existing improvements. A prerequisite of the Housing Commission loan would be approval from the City and HUD to split the lot so the HUD encumbrance will not affect the value of the security for the partnership. (See Site Map – Attachment 2.)

St. Stephens Senior Apartments would consist of 50 unfurnished one-bedroom apartment units, an approximately 2000 square foot multi-purpose room, and offices and storage areas for the on-site staff in one four-story building. The multi-purpose room would be available for use by St. Stephens Retirement Center. One of the dwelling units would be used as a residence for an on-site manager. The design of the exterior elevations avoids a monolithic appearance through various combinations of setbacks, terraces, roof lines, and other architectural details. The building would have a landscaped interior courtyard and patio area with benches. Parking would be provided by a dedicated parking area at the southern perimeter of the property.

### The Funding Request

The total development cost is estimated at \$6,341,134 (approximately \$126,823 per unit for 50 units). Nine percent low-income housing tax credits of \$4,565,976 would be the primary financing. California Community Reinvestment Corporation (CCRC) would provide a first trust deed loan of \$1,098,000.

Commission funds would be part of the permanent financing for the development. The Commission's total development cost would be \$677,158 (\$13,543 per unit).

### The Financial Plan

Total Development Cost:	The estimated total development cost is \$6,341,134 including construction costs, interest costs, builder overhead and profit, builder fees, and a developer fee.
Cost per Unit:	The estimated development cost per unit is \$126,823 (\$198 per square foot) which includes a multi-purpose room, a manager's dwelling unit, and a manager's office.
Appraised Value:	Release of Housing Commission funds would be conditioned upon Agency receipt of a satisfactory "as-built" appraisal.
Loan Amount:	The requested loan would leverage \$677,158 against \$5,663,976 expected from other sources.

- Security: The lot would be split and the Housing Commission loan would be secured by a second trust deed recorded against the new parcel and the 50-unit apartment complex.
- Rent Restrictions: A Declaration of Covenants, Conditions, and Restrictions with a 55-year term of affordability would be recorded against the property.
- Occupancy Restrictions: A restriction limiting occupancy of 49 units to households earning 50 percent or less of Median Area Income would be recorded against the property.
- First Trust Deed: A \$1,098,000 loan from California Community Reinvestment Corporation.
- Second Trust Deed: A \$677,158 loan from the San Diego Housing Commission.
- Payment Plan: The San Diego Housing Commission would be paid from residual receipts. Tax credit participation requires an interest rate equal to the applicable federal funds rate at the time of closing. Debt service on the Housing Commission loan during the first three years of operation (starting at stabilized occupancy) would be 50 percent of residual receipts. Starting with year-four, payments would equal the greater of 50 percent of residual receipts or \$5,991, which is equal to half of the estimated residual receipts at the end of year-one. Principal and interest would be due and payable one year after senior loans are paid off.
- Recourse: The loan would be non-recourse because of tax credit rules.
- Management Plan: The developer will submit a management plan for Commission staff approval.

Operating Expense:	Monthly operating expense is projected at \$271 per unit for 50 units.
Replacement Reserves:	A reserve of \$12,500 per year / \$250 per unit for 50 units.
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

Loans to tax credit developments become non-recourse upon the creation of a limited partnership for tax credit syndication because of Internal Revenue Service regulations that make the investment undesirable if structured otherwise. This would limit the Housing Commission's ability to recover funds because the encumbrance would be only on the property and not the other assets of the developer. This risk is typically taken by the Housing Commission for tax credit-financed developments, and is deemed mitigated by conservative underwriting assumptions.

Representing approximately ten percent of the project's total estimated development cost, the Housing Commission loan would be contingent upon the partnership arranging the other financing. This contingency, coupled with the experience of the developer, makes this a relatively low-risk investment.

### Disclosure

In April of 1995, the Housing Commission was unable to recover approximately \$347,000 from the proceeds of a trustee sale following bank foreclosure on the Genesis 91 development. St. Stephens Church of God in Christ (SSC) was affiliated with the development as a limited partner and did not have an active role in the development. Located at 5492-5496 Imperial Avenue, Genesis 91 was a 47-unit residential acquisition and rehabilitation project developed and owned by Genesis 91, L.P.

## ALTERNATIVE

The Housing Commission could approve a recommendation of less than the proposed \$677,158. The Housing Commission could also decline loan approval. Since the other lender commitments are based on the partnership securing gap

funding from the Housing Commission, a decision to not approve the loan, or to loan a lesser amount, could result in the withdrawal of the proposal and the resulting loss to the City of 49 units of housing affordable to very low income seniors.

Submitted by,

Jack D. Farris  
Housing Finance &  
Development Manager

**Signature on File  
With Original Document**

Approved by,

Elizabeth C. Morris  
Chief Executive Officer

- Attachments:
1. Location Map
  2. Site Map
  3. Project Development Summary
  4. Development Timeline
  5. HC Development Form
  6. Disclosure Statements\*
  7. Financial Statements\*

\*Distribution of this attachment is limited. A copy is available for review at the Housing Commission's 1625 Newton Avenue office and the office of the City Clerk, 2<sup>nd</sup> floor, 202 "C" Street.

## ATTACHMENT 3

### Development Summary May 10, 2002

Name: St. Stephens Senior Apartments  
Location: 5625 Imperial Avenue  
Description: Rental housing for very low income seniors  
Sponsor: St. Stephens Church of God in Christ and Related Partnership

#### Unit Affordability

Total # of units: 50  
Assisted units: 49  
Restricted rents: one-bedroom @ \$339  
one-bedroom @ \$452  
one-bedroom @ \$508

Market rent: \$794

Percent of AMI: 5 units @ 28 percent  
(Housing Commission 10 units @ 38 percent  
Rent levels) 34 units @ 42 percent

Affordability: 55 years

#### Development Cost

Total development cost: \$6,341,134: \$198 per square foot  
HC development cost: \$ 677,158  
Total development cost per unit: \$ 126,823  
HC cost per unit (50 units): \$ 13,543  
HC subsidy per bedroom @ 50 br's: \$ 13,543

#### Sources of Funds

Cal. Community Reinvestment Corp \$ 1,098,000  
San Diego Housing Commission Loan \$ 677,158  
Low Income Housing Tax Credits \$ 4,565,976

#### Pro Forma Summary

Estimated net annual income: \$ 108,663 (year 1)  
Estimated annual expense: \$ 162,509 (year 1): \$5.07 per square foot  
Annual debt service: \$ 96,681 (1.12 ratio in year 1)  
Estimated residual receipts: \$ 11,982 (year 1)  
Est. cumulative residual: \$ 276,699 (year 15)

ATTACHMENT 4

**St. Stephens Senior Apartments  
DEVELOPMENT TIMELINE**

May 28, 2002	Loan to the Housing Authority for approval
March 31, 2003	Construction Loan Closing
April 2, 2003	Start of Construction
April 15, 2004	Certificate of Occupancy
June 20, 2004	Complete Occupancy / Stabilization
June 23, 2004	Permanent Loan Closing