



EXECUTIVE SUMMARY

HOUSING COMMISSION EXECUTIVE SUMMARY SHEET

MEETING DATE: June 10, 2022

HCR22-084

SUBJECT: Loan Recommendation for Iris Trolley

COUNCIL DISTRICT: 8

ORIGINATING DEPARTMENT: Real Estate Division

CONTACT/PHONE NUMBER: Colin Miller (619) 578-7429

REQUESTED ACTION:

Approve a proposed residual receipts loan in an amount not to exceed \$4,915,200 to Trolley I Investors, L.P., a California limited partnership, to facilitate the acquisition and new construction of Iris Trolley, a transit-oriented development at 1507 Howard Avenue in the Otay Mesa-Nestor community that will consist of 63 units that will remain affordable for 55 years for large families with income from 30 percent to 50 percent of San Diego's Area Median Income and one unrestricted manager's unit.

EXECUTIVE SUMMARY OF KEY FACTORS:

- Iris Trolley is a proposed 64-unit, new construction, affordable, transit-oriented, family development.
- It will consist of 30 one-bedroom, 18 two-bedroom and 16 three-bedroom apartments, including one unrestricted manager's unit.
- The development will be across the street from Iris Trolley Station – qualifying the site as part of the City's Transit Priority Area.
- On January 11, 2022, Housing Commission staff provided a preliminary recommendation of award of a residual receipts loan in an amount up to \$4,915,200 subject to Housing Commission Board approval for Iris Trolley.
- Additional financing would include a 9 percent tax credits allocation from the California Tax Credit Allocation Committee, a No Place Like Home loan from the County of San Diego, and other necessary third-party financing.
- The development is designed to function as a pedestrian-friendly housing option ideal for working persons and households interested in using public transportation, and related sustainable alternatives, as part of their transportation plan.
- Iris Trolley residents will have access to financial literacy classes, after school tutoring, computer classes, and English as a Second Language (ESL) classes. These services will be provided by Eden Housing Resident Services Inc.
- Eden Housing purchased the site in April of 2022, clear of all structures. The previous owner demolished the vacant homes on-site before Eden Housing purchased the land.
- The total development cost is estimated at \$32,925,100 (\$514,454/unit).



REPORT

DATE ISSUED: June 2, 2022

REPORT NO: HCR22-084

ATTENTION: Chair and Members of the San Diego Housing Commission
For the Agenda of June 10, 2022

SUBJECT: Loan Recommendation for Iris Trolley

COUNCIL DISTRICT: 8

REQUESTED ACTIONS

Seven-day advance notice of San Diego Housing Commission Hearing of the following matter has been provided to the Housing Authority Members pursuant to the provisions of San Diego Municipal Code Section 98.0301(e)(4)(a)(b) for Staff Recommendation No. 1.

Approve a proposed residual receipts loan in an amount not to exceed \$4,915,200 to Trolley I Investors, L.P., a California limited partnership, to facilitate the acquisition and new construction of Iris Trolley, a transit-oriented development at 1507 Howard Avenue in the Otay Mesa-Nestor community that will consist of 63 units that will remain affordable for 55 years for large families with income from 30 percent to 50 percent of San Diego's Area Median Income and one unrestricted manager's unit.

STAFF RECOMMENDATIONS

That the San Diego Housing Commission (Housing Commission) Board of Commissioners (Board), take the following actions as described in this report:

- 1) Approve a proposed residual receipts loan in an amount not to exceed \$4,915,200 to Trolley I Investors, L.P., a California limited partnership, to facilitate the acquisition and new construction of Iris Trolley, a transit-oriented development at 1507 Howard Avenue in the Otay Mesa-Nestor community that will consist of 63 units that will remain affordable for 55 years for large families with income ranging from 30 percent to 50 percent of San Diego's Area Median Income (AMI) and one unrestricted manager's unit.

The Housing Commission's proposed loan will be contingent upon the developer receiving all necessary third-party funding commitments as described in this report. Such third-party funding commitments will be subject to the Housing Commission General Counsel's approval.

- 2) Authorize the President and Chief Executive Officer (President & CEO), or designee:
 - a. To execute any and all documents necessary to effectuate the transaction and implement the project in a form approved by the General Counsel, and to take such actions as are necessary, convenient, and/or appropriate to implement the approvals upon advice of the General Counsel, provided that a copy of the documents, signed as to form by General Counsel, is submitted to each Housing Commissioner.

- b. To adjust financing terms and conditions, as necessary, for consistency with requirements of other funding sources or to accommodate market changes that may occur, provided that the proposed \$4,915,200 maximum loan amount may not increase.
- c. To substitute approved funding sources with 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 this approval and delegation of authority by the Housing Commission Board upon advice of the General Counsel.

SUMMARY

A Development Summary is at Attachment 1.

Table 1 –Development Details

Address	1507 Howard Avenue San Diego, CA 92173
Council District	8
Community Plan Area	Otay Mesa-Nestor
Developer	Eden Housing, Inc.
Development Type	New construction
Construction Type	Type VA, Type IIA (four and five segmented stories)
Parking Type	64 parking spaces
Mass Transit	Iris Trolley Station immediately across street, Metropolitan Transit System bus line within ¼ mile (Bus Lines: 901, 905, 906, 907, 932, 933, 934, 950)
Housing Type	Multifamily (Examples: Individual/family)
Lot Size	One parcel totaling 0.96 acres, 41,818 square feet
Units	64 (63 units restricted/affordable)
Density	66.67 dwelling units per acre (64 units ÷ 0.96 acres)
Unit Mix	63 affordable rental units: 30 one-bedrooms, 18 two-bedrooms, 16 three-bedrooms, and one restricted managers’ units.
Gross Building Area	467,549 square feet.
Net Rentable Area	448,000 square feet.
Affordable Units in Service by Council District	Council District 8 includes 3,879 affordable rental housing units currently in service, which represents 15.8 percent of the 24,554 affordable rental housing units in service citywide.

The Development

The Iris Trolley is a proposed 64-unit, new construction, affordable, transit-oriented, family development. Once completed it will consist of 30 one-bedroom, 18 two-bedroom and 16 three-bedroom apartments, including one unrestricted manager’s unit.

The building will be type VA for the four-story wood frame segment of the building, stepping up to five stories (type IIA). There will be 64 surface tuck-under parking spaces.

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The development will be at 1507 Howard Avenue in the Otay Mesa-Nestor Community Plan Area and immediately across the street from Iris Trolley Station (see Attachment 2 Site Map) – qualifying the site as part of the City’s Transit Priority Area. The development is designed to function as a pedestrian-friendly housing option ideal for working persons and households interested in using public transportation, and related sustainable alternatives, as part of their transportation plan. Resident will be provided access to electric vehicle charging station spaces, bike racks and bike lockers at the nearby trolley station. In addition to the trolley, the site is served by a Metropolitan Transit System bus line and features easy connections to nearby health and wellness facilities, senior centers and neighborhood eateries.

Services

Iris Trolley residents will have access to financial literacy classes, after school tutoring, computer classes, and English as a Second Language (ESL) classes. These services will be provided by Eden Housing Resident Services Inc.

Developer’s Request

In response to the Housing Commission’s Fiscal Year (FY) 2022 Notice of Funding Availability (NOFA), Eden Housing, Inc. submitted an application for a loan for the Iris Trolley development. On January 11, 2022, Housing Commission staff provided a preliminary recommendation of award of a residual receipts loan in an amount up to \$4,915,200 subject to Housing Commission Board approval for the 64-unit Iris Trolley development.

The nonprofit developer, Eden Housing, Inc., proposes to construct 64 new apartment units, with financing that would include the proposed Housing Commission loan, a 9 percent tax credits allocation from the California Tax Credit Allocation Committee (CTCAC) , a No Place Like Home (NPLH) loan from the County of San Diego, and other necessary third-party financing as described in this report.

Appraisal

The estimated fair market value, of the fee simple interest, as of August 27, 2021, is \$3,500,000. The appraisal, obtained by the developer, was conducted by Novogradac.

Prevailing Wages

The proposed development is not subject to payment of California State nor federal prevailing wages as the proposed use of federal HOME Investment Partnerships Program (HOME) funds is below the 12-unit federal threshold and will not require federal prevailing wages..

Project Sustainability

Iris Trolley will be constructed in conformance with CTCAC’s minimum energy efficiency standards. The developers will achieve a minimum LEED Silver or equivalent certification. Iris Trolley will have planned green features, including energy-efficient appliances, storm water strategies that use filtration, landscape architecture designed with drought-tolerant and native plants, bike storage to promote exercise and reduce automobile use, photovoltaic panels to offset electrical power demand, strategies to reduce leakage, and highly efficient HVAC systems.

Accessibility

CTCAC requires wheelchair accessibility in 10 percent of the units, and 4 percent of the units accessible to residents with visual and/or hearing impairment. The same units can satisfy both of these accessibility requirements. If HOME Investment Partnerships Program funds are used to fund the development, these accessible units will satisfy the HOME accessibility requirement in 5 percent of the units, plus an additional 2 percent of the units accessible for residents with visual and/or hearing impairment.

Relocation

Eden Housing purchased the site in April of 2022, clear of all structures. The previous owner demolished the vacant homes on-site before Eden Housing purchased the land.

Development Team

The developer is Eden Housing, Inc. The proposed borrower Trolley I Investors, L.P., which will have Eden Housing, Inc. as its General Partner and a to-be-determined tax credit investor limited partner (Attachment 3). Eden Housing is headquartered in Hayward, California and was established in 1968. Eden Housing has more than 9,000 rental units under ownership in California, spanning 50 cities in 15 counties. It is a vertically integrated company with in-house asset management, compliance, accounting, resident services, and property management. Eden Housing has acted as the developer on previous affordable housing developments that utilized Multifamily Housing Revenue Bonds that the Housing Commission authorized, with the approval of the Housing Authority of the City of San Diego. Eden Housing is in full compliance on its previous bonds. Based upon the developer’s past experience and performance, Housing Commission staff has determined that the developer has the capacity to successfully complete the proposed Iris Trolley development.

Table 2 Development Team Summary

ROLE	FIRM/CONTACT
Developer	Eden Housing, Inc.
Owner/Borrower	Trolley I Investors, L.P.
Managing General Partner	Eden Trolley I LLC
Administrative General Partner	To be determined
Tax Credit Investor Limited Partner	To be determined
Architect	GLO Architecture
General Contractor	Cannon Constructors, Inc.
Property Management	Eden Housing Management, Inc.
Construction and Permanent Lender	To be determined
Tenant Services Providers	Eden Housing Resident Services, Inc.
Construction/Permanent Lender	To be selected

Property Management

Iris Trolley will be managed by Eden Housing Management, Inc. Established in 1984, Eden Housing Management owns a management portfolio of 9,430 units of rental housing in 144 properties, including properties for families, seniors, and people with disabilities. Eden Housing Management, Inc. owns and manages properties in 50 cities across 15 counties in California.

FINANCING STRUCTURE

Iris Trolley has an estimated total development cost of \$32,925,100 (\$514,454/unit). Financing will include a combination of sources as described in Table 3. The developer’s pro forma is included as Attachment 4 and summarized in Table 3 below.

Table 3 – Trolley I Investors L.P. Estimated Permanent Sources and Uses

Financing Sources	Amounts	Financing Uses	Amounts	Per Unit
Permanent loan (third party lender)	\$ 1,933,031	Acquisition	\$ 3,500,000	\$ 54,688
City of San Diego	4,788,756	Construction costs \$18,921,000 Contingency + 946,050 Total construction \$ 19,867,050	19,867,050	310,423
Housing Commission proposed loan	4,915,200	Financing costs	128,126	2,002
RTCIP/DIF fee waivers	154,112	Other soft costs	1,966,284	30,723
Deferred Developer Fee	318,700	Permits and fees	4,797,928	74,977
9 percent tax credit equity	17,987,061	Total reserves	380,712	5,949
IIG	2,198,240	Developer Fee	2,285,000	35,703
FHLB - AHP	630,000			
Total Development Cost	\$32,925,100	Total Development Cost (TDC)	\$ 32,925,100	\$ 514,454

The Housing Commission’s proposed \$4,915,200 residual receipts loan will be funded with federal HOME funds and the City of San Diego Affordable Housing Fund (Inclusionary Housing Funds and Housing Trust Funds). The total amount of Housing Commission funding sources shall not exceed \$4,915,200. A final determination of Housing Commission funding sources will be made by the Housing Commission’s President & CEO, or designee, contingent upon budget availability. The proposed loan terms are summarized in Attachment 5.

The Housing Commission requires affordable housing developers to pursue all viable sources of funding to reduce the financing gap and amount of Housing Commission subsidy required. If other funding is secured, proceeds will first be used to make an adjustment to reduce the Housing Commission’s loan.

Developers’ Fee

\$2,285,000 – Gross developer fee
 - 318,700 – Minus deferred developer fee
 \$1,966,300 – Net cash developer fee

On April 25, 2017, the Housing Authority approved the “Request for Approval of Updated Developer Fees” (HAR17-011). That report approved certain developer fee guidelines for multifamily loans and bonds issuances. That report at its Attachment 1 states: “Developer fee for 4% tax credits: in project costs 15% of eligible basis...” For this development the developers are proposing a \$2,285,000 total developer fee, which complies with HAR17-011. The net cash developer fee shall be \$1,966,300 provided, however, that in the event financing terms or construction costs change and result in a financing gap, the developer may defer additional developer fee. The fee proposed is consistent with the

Request for Approval of Updated Developer Fees (HAR17-011) approved by the Housing Authority on April 25, 2017.

Development Cost Key Performance Indicators

Housing Commission staff has identified development cost performance indicators that are used to evaluate proposed developments and make a funding recommendation. The key performance indicators listed in Table 4 are commonly used by real estate industry professionals and affordable housing developers.

Table 4 – Key Performance Indicators

Development Cost Per Unit	\$32,925,100 / 64 units	\$514,454
Housing Commission Subsidy Per Unit	\$4,915,200 / 64 units	\$76,800
Acquisition Cost Per Unit	\$3,500,000 / 64 units	\$54,688
Gross Building Square Foot Hard Cost	\$18,891,090 / 61,938 square feet	\$ 305
Net Rentable Square Foot Hard Cost	\$18,905,760/ 41,460 square feet	\$ 456

Project Comparison Chart

Multiple factors and variables influence the cost of developing multifamily affordable housing, including but not limited to project location, site conditions, environmental factors, land use approval process, community involvement, construction type, design requirements/constraints, economies of scale, City fees, developer experience and capacity, and the mission and goals of the organization developing the project. Similar construction-type developments (completed or approved) over recent years are listed in Table 5.

These developments are similar in terms of new construction, target population, and construction type and are provided as a comparison to the subject development.

Table 5 – Comparable Development Projects

New Construction Project Name	Year	Units	Total Development Cost	Cost Per Unit	HC Subsidy Per Unit	Gross Hard Cost Per Sq. Ft.
Proposed Subject – Iris Trolley	2022	64	\$ 32,925,1000 (w/o prevailing wage)	\$ 514,454	\$76,800	\$336
Cortez Hill	2021	88	\$43,647,979 (with prev. wage)	\$496,000	\$56,818	\$526
Southwest Village	2021	81	\$40,314,147 (with prev. wage)	\$497,706	\$0	\$367
ShoreLINE	2021	180	\$62,703,426 (with prev. wage)	\$497,646	\$0	\$310
Nestor Senior Village	2021	74	\$31,510,305 (with prev. wage)	\$425,815	\$45,000	\$363

AFFORDABLE HOUSING IMPACT

The Iris Trolley development will be subject to a Housing Commission Declaration of Covenants and Restrictions, in addition to applicable tax credit agreements, which will restrict affordability of 63 units for 55 years.

The rent and occupancy restrictions required by the Housing Commission, CTCAC and other lenders and investors will apply. The same units may be counted as the tax credit restricted units and the Housing Commission loan’s restricted units. The more stringent of the funding sources’ affordability/rent restrictions will take precedence during the term of their applicability.

Table 6 Affordability and Monthly Estimated Rent Table

Unit Type	AMI	Number of Units	Gross Rents
1 BR	30% (\$31,250/year for two-person household)	11	\$682
1BR	40% (\$41,650/year for two-person household)	6	\$909
1BR	50% (\$52,050/year for two-person household)	13	\$1,136
Subtotal One Bedroom Units		30	
2BR	30% (\$35,150/year for three-person household)	6	\$818
2BR	40% (\$46,850/year for three-person household)	3	\$1,091
2BR	50% (\$58,550/year for three-person household)	8	\$1,363
Subtotal Two Bedroom Units	--	17	
3BR	30% (\$39,050/year for four-person household)	6	\$945
3BR	40% (\$52,050/year for four-person household)	3	\$1,260
3BR	50% (\$65,050/year for four-person household)	7	\$1,575
Subtotal Three Bedroom Units	--	16	
2 Bedroom Manager	-	1	-
Total Units	-	64	-

EQUAL OPPORTUNITY CONTRACTING AND EQUITY ASSURANCE

Eden Housing, Inc. is committed to equity and inclusion as both an employer and a service provider. The Housing Commission included a requirement in the NOFA for prospective applicants to include a narrative and specific examples of activities and initiatives that support equity assurance. Eden Housing,

Inc. demonstrates a commitment to advancing racial equity and inclusion (REI) through project design and operational policies, throughout the proposed project timeline.

FISCAL CONSIDERATIONS

The proposed funding sources and uses approved by this proposed action are included in the Housing Authority-approved Fiscal Year (FY) 2022 Housing Commission Budget.

Estimated funding sources approved by this action will be as follows:

- Housing Commission loan funds – up to \$4,915,200
- Total Funding Sources – up to \$4,915,200

Estimated funding uses approved by this action will be as follows:

- Loans – up to \$4,915,200
- Total Funding Uses – up to \$4,915,200

Approving this action will further grant the President & CEO, or designee, the authority to substitute the above funding sources with other available funding sources so long as the total Housing Commission loan amount does not exceed the approved total loan amount, should the operational need arise or should such actions be to the benefit of the Housing Commission.

Development Schedule

The estimated development timeline is as follows:

<u>Milestones</u>	<u>Estimated Dates</u>
• CTCAC 9 percent tax credit application	June 30, 2022
• CTCAC 9 percent tax credit allocation meeting	September 28, 2022
• Estimated escrow/loan closing	March 10, 2023
• Start of construction work	March 10, 2023
• Completion of construction work	October 10, 2024

HOUSING COMMISSION STRATEGIC PLAN

This item relates to Strategic Priority Area No. 1 in the Housing Commission Strategic Plan for Fiscal Year (FY) 2022-2024: Increasing and Preserving Housing Solutions.

COMMUNITY PARTICIPATION and PUBLIC OUTREACH EFFORTS

On July 14, 2021, Eden Housing Inc. presented the proposed development as an informational item to the Otay Mesa Community Planning Group.

KEY STAKEHOLDERS & PROJECTED IMPACTS

Stakeholders include Eden Housing, Inc. as the developer, Eden Housing Resident Services, Inc. as the service provider, the City of San Diego, the Housing Commission as a lender, and the Otay Mesa-Nestor Community Planning Group. The project is anticipated to have a positive impact on the community, as it will contribute to the quality of the surrounding neighborhood and create 63 new, affordable, transit-oriented rental homes for working San Diego families.

STATEMENT FOR PUBLIC DISCLOSURE

The developer's Disclosure Statement is at Attachment 6.

ENVIRONMENTAL REVIEW

California Environmental Quality Act

This project is exempt from the California Environmental Quality Act (CEQA) pursuant to Section 15300.1, Relation to Ministerial Projects. Section 21080 of the Public Resources Code exempts from the application of CEQA those projects over which public agencies exercise only ministerial authority. The City of San Diego Development Services Department has provided the developer with verification of environmental review & land use entitlements indicating the building permit's ministerial approval.

National Environmental Policy Act

Federal funds will constitute a portion of the funding for the project. A final reservation of federal funds shall occur only upon satisfactory completion of the environmental review and receipt by the City of San Diego of a release of funds from the U.S. Department of Housing and Urban Development under 24 CFR Part 58 of the National Environmental Policy Act (NEPA).

Respectfully submitted,

Jennifer Kreutter

Jennifer Kreutter
Vice President, Multifamily Housing Finance
Real Estate Division

Approved by,

Jeff Davis

Jeff Davis
Interim President & Chief Executive Officer
San Diego Housing Commission

- Attachments:
1. Development Summary
 2. Site Map
 3. Organization Chart
 4. Developers' Project Pro Forma
 5. Proposed Loan Terms
 6. Developer's Disclosure Statement

Docket materials are available in the "Governance & Legislative Affairs" section of San Diego Housing Commission website at www.sdhc.org.