Attachment B

HOME UNDERWRITING & SUBSIDY LAYERING REVIEW

116 Redondo Avenue

City of Long Beach

Keyser Marston Associates, Inc.
April 3, 2018

1804002:LBH:TRB
15620.001.144

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At the City of Long Beach's (City) request, Keyser Marston Associates, Inc. (KMA) prepared a HOME Underwriting & Subsidy Layering Review for the proposed rehabilitation of an existing six-unit apartment building located at 116 Redondo Avenue (Site). The Developer is proposing to rehabilitate all six units, with five units reserved for special needs households, and one unit utilized as office space for on-site supportive services (Project). The Project will be undertaken by Home Ownership for Personal Empowerment (Developer). The City has verified that the Developer is a Community Housing Development Organization (CHDO).

The City plans to provide financial assistance to the project using HOME Program (HOME) funds that are allocated to the City by the United States Department of Housing and Urban Development (HUD). The HOME funds will be applied towards fulfillment of the HUD requirement that at least 15% of HOME funds must be allocated to approved CHDOs. This analysis is prepared in compliance with the requirements imposed by the HOME Program, and the City's HOME Project Underwriting and Subsidy Layering Review Guidelines.

The KMA analysis includes the following components:

1. An underwriting review to ensure that no more than the necessary amount of HOME funds is invested by the City in order to provide affordable housing. This section also provides an assessment of the reasonableness of the Developer Fee, and the profit anticipated to be generated by the Developer's investment in the Project.

2. An evaluation of the Developer's capacity to develop and operate the Project.

3. A review and summary of the current market demand for the Project.

4. An assessment of other HOME requirements and deadlines, including the financial commitment documentation submitted by the Developer.

I. EXECUTIVE SUMMARY

The Developer proposes to utilize a combination of the following sources to complete the Project:

1. A $1.02 million conventional mortgage;

2. The Del Harbor Foundation is anticipated to provide $20,000 in grant funds;

3. The Developer will contribute $116,000 in Developer equity to the Project; and

4. The Developer will defer $25,000, or 100% of the Developer Fee.

The KMA analysis concluded the following:

1. Underwriting Analysis:

a. The Project costs are estimated at $2.06 million. The Developer will obtain $1.18 million in outside funding sources, which results in a $882,100 shortfall. The City is proposing to provide $875,920 in HOME funds, which is less than financial gap estimated by KMA. Thus, the analysis demonstrates that the proposed $875,920 in HOME assistance is necessary to provide the proposed affordable housing units.

b. The Developer will defer $25,000, or 100% of the Developer Fee. The Developer Fee will be repaid from the Project's cash flow, which is typical of affordable housing projects. Thus, the profit anticipated to be generated by the Developer's investment in the Project is appropriate.

2. The Developer has demonstrated the development capacity and fiscal soundness to undertake the Project.

3. Given the small size of the Project, the Developer did not prepare a formal market study. However, the Developer has a waiting list with 81 special needs applicants for housing located in the Long Beach area. Thus, it can be concluded that there is sufficient demand for the proposed Project. The Developer anticipates completing the Project by October 2018, and leasing the Project by December 2018. Thus, the Project will comply with the HOME requirement to lease-up the Project within six months of completing construction.

4. Other HOME Requirements:

HOME Requirement	Conclusion
HOME Program Deadlines	The Project is estimated to meet the construction commencement, Project completion, and Project lease-up requirements imposed by HOME.
Written Agreement	To be reviewed prior to HOME commitment.
Layering Requirements	The assistance package complies with the HOME layering requirements.
HOME Unit Designation	The Project will comply with the HOME requirements for the number of HOME designated units as well as the number of units restricted to very-low income households.
Affordability Period	The Project will comply with the affordability period requirements mandated by the HOME Program.
Cost Allocation	The HOME units are determined to be representative of the entire Project. Thus, the cost allocation can be prorated across the eligible costs.
Property Standards	The Project will meet the HOME property standards requirements for rehabilitation and on-going property management.
HOME Rents / Utility Allowances	The HOME units will be restricted at the appropriate rents. The owner will pay for all utilities.

Financial Commitments	The funding sources discussed in this Report are sufficient, and timely in availability, to cover the Project costs.

II. PROJECT DESCRIPTION

The proposed scope of development can be described as follows:

1. The Developer proposes to purchase an existing six-unit apartment building. Five of the units will be rented to special needs households as follows:

    a. One (1) studio unit will be restricted to Low HOME households;

    b. Two (2) one-bedroom units will be restricted to High HOME households; and

    c. Two (2) two-bedroom units will be restricted to High HOME households.

2. One (1) studio unit will be reserved as office space to provide on-site supportive services to the tenants.

3. The Developer proposes to undertake a rehabilitation of the units which will include adding accessibility features, incorporating systems upgrades, and other improvements to support the safety, comfort and independence of residents.

III. PROJECT UNDERWRITING ASSESSMENT

KMA analyzed the Developer's sources and uses of funds statement for the Project. In addition, KMA reviewed the affordability requirements which will be imposed by the HOME Loan Financing Agreement. The following summarizes the KMA analysis:

A. Estimated Project Costs

The Developer provided a pro forma on April 2, 2018. KMA reviewed the Developer's development cost estimate, and found the assumptions to be reasonable and necessary to complete the proposed Project. The Project costs applied in the analysis are as follows:

Property Acquisition Costs

The Developer proposes to acquire the property for $1.81 million. An appraisal was not completed at the time of this analysis. City staff should review the appraisal and confirm the reasonableness of the purchase price prior to executing the HOME Loan Agreement. This analysis may need to be updated if the fair market value of the Site differs from the purchase price utilized in this analysis.

Direct Costs

The direct cost estimates assume that the Project will not be subject to Federal Davis Bacon or State of California prevailing wage requirements. The Developer estimated the direct costs as follows:

1. The existing building is currently occupied, and will require these tenants to be relocated to undertake the Project. The Developer estimates the relocation costs at $88,000. The Developer is working with a relocation consultant to finalize the relocation plan. As such, a relocation plan was not provided for review. City staff should review the relocation plan and confirm the relocation costs prior to the execution of the HOME Loan Agreement. This analysis may need to be revised if the final relocation costs differ from the amounts assumed in this analysis.

2. The building rehabilitation costs are estimated at $70,000, or $14,000 per affordable unit. For the purposes of this analysis, KMA assumes that the scope of rehabilitation will comply with the property standards outlined in Section 92.251 of the HOME Program regulations. City staff should ensure the accuracy of this compliance. The KMA analysis may need to be updated if additional rehabilitation is required to comply with Section 92.251.

3. The City will require the Developer to obtain a performance bond for the Project. The cost for the performance bond is estimated at $2,500.

The total direct costs are estimated at $160,500.

Indirect Costs

The indirect costs are estimated at $92,600 as follows:

1. The predevelopment costs are estimated at 25% of total direct costs, or $40,100. The predevelopment costs include architecture, engineering, consulting, public permits and fees, taxes, insurance, legal and accounting costs.

2. The closing costs are estimated at $23,500, or approximately 1.3% of the purchase price.

3. The Developer Fee is set at $25,200, and is based on 1% of acquisition costs and 10% of rehabilitation costs.

4. KMA included an indirect cost contingency allowance equal to 5% of other indirect costs.

Total Development Costs

KMA estimates the total development costs at $2.06 million, which is approximately $4,200 higher than the Developer's estimate. This differential is primarily due to KMA including an indirect cost contingency allowance, which is typical of projects of this scope. As such, KMA concludes that the Developer's estimates appear reasonable and necessary to complete the Project.

B. Income and Affordability Requirements

The City will provide HOME Program funding assistance to the Project. As such, the five units will be subject to HOME Program household income limits and rent standards. The HOME Program requires projects with five or more HOME-designated units to restrict at least 20% of the units to very-low income households. As such, one studio unit will be restricted to Low HOME households and the remaining four units will be restricted to High HOME households.

C. Stabilized Net Operating Income

Estimated Effective Gross Income

The 2017 gross HOME rents are as follows:[1]

1. Low HOME Studio Unit – $788 per unit per month

2. High HOME One-Bedroom Unit – $1,163 per unit per month

3. High HOME Two-Bedroom Unit – $1,397 per unit per month

It is important to note that the tenant-paid rent for each unit will be equal to 30% of the household's income up to the maximum rent imposed by the HOME Program. The Harbor Regional Center (HRC) will cover any difference between the tenant-paid rent and the Fair Market Rent (FMR) set by the HRC. The Harbor Regional Center is a nonprofit service organization operating under contract with the California Department of Development Services. The Developer has worked with HRC on previous projects. The HOME Loan Financing Agreement will require HRC to guarantee the rental subsidy to the Project for at least 15 years. City staff should review the terms of the executed HRC contract prior to execution of the HOME Loan Financing Agreement.

The current FMRs established by HRC are as follows:

1. Studio Unit – $1,067 per unit per month

2. One-Bedroom Unit – $1,284 per unit per month

3. Two-Bedroom Unit – $1,663 per unit per month

KMA and the Developer applied a 5% vacancy and collection allowance to the residential income. In addition, one studio unit will be utilized for the social service provider. The social service provider will pay $1,540 per month for the use of this space.

As such, KMA estimates the effective gross income at $97,800.

[1] Utility allowances are not deducted from the affordable rents, since the owner will pay for all utilities.

Operating Expenses

The Project's operating expenses are estimated at $24,500 per year based on the following assumptions:

1. The general operating expenses are estimated at $19,700 per year. The social services are provided outside the Project's operating budget.

2. KMA assumes the Developer will apply for the property tax abatement that is accorded to nonprofit housing organization that own very-low and low income apartments. The Developer estimated the property tax assessment overrides at $3,000 per year.

3. The Developer assumed an annual replacement reserve deposit of $1,800 per year. This equates to $360 per month, which is within the typical range for affordable housing projects.

Stabilized Net Operating Income

The Project's effective gross income is estimated at $97,800, and the operating expenses are estimated at $24,500. This results in estimated stabilized net operating income of $73,300.

It is important to note that the total ongoing expenses for the Project, as well as reserve set-asides and any rental subsidies, will be captured through a lease agreement between the Developer and HRC. This lease arrangement will ensure that the Project generates positive cash flow as well as long term operating and capital reserves. HRC will also ensure that there is a long-term agreement to provide supportive services to the Project's tenants.

D. Financial Gap Calculation

The financial gap is estimated by deducting the available outside funding sources from the Project's total development costs. The outside funding sources anticipated to be received by the Project are described in the following sections of this analysis:

Available Outside Funding Sources

Permanent Loan

The Developer intends to obtain a loan from Clearinghouse CDFI based on the following underwriting terms: a 113% debt service coverage ratio, a 5.75% interest rate, and a 40-year amortization period. These are reasonable underwriting assumptions in the current financial marketplace, and as such, they are applied in the KMA analysis. Based on these assumptions, KMA and the Developer estimate that the Project's net operating income can support a $1.02 million loan.

The Developer provided a processing checklist from Clearinghouse CDFI which proposes a loan amount of $1.02 million. City staff should confirm that the conventional lender will provide the amount included in this analysis prior to the execution of the HOME Loan Agreement. If the conventional loan amount differs from the amount assumed in this analysis, the KMA analysis may need to be updated.

Del Harbor Foundation Grant

The Developer is anticipating being awarded a grant from the Del Harbor Foundation in May. The Developer is proposing to use $20,000 in grant funds for the Project. If the Developer does not receive the Del Harbor Foundation Grant, the Developer will utilize Developer equity instead.

Developer Contribution

The Developer will contribute $116,000 in Developer equity to the Project.

Deferred Developer Fee

The Developer is proposing to defer $25,000, or 100% of the total Developer Fee.

Total Available Outside Funding Sources

As shown in Table 3, the outside funding sources available to the Project total $1.18 million.

Financial Gap Calculation

Based on the assumptions outlined in this analysis, the financial gap is calculated as follows:

Financial Gap Calculation	
Total Development Costs	$2,058,100
(Less) Total Available Funding Sources	($1,176,000)
Financial Gap	**$882,100**

The City proposes to fund the financial gap with $875,900 in HOME Program funds.

E. Profit and Returns

The following analyzes the anticipated profit to the Developer/Owner.

Developer Fees	The Developer will receive a Developer Fee equal to 1% of acquisition costs and 10% of rehabilitation costs, which is reasonable.
Developer Profit	Not applicable.
Cash Flow	As proposed, excess cash flow will be deposited into an operating reserve.
Equity Appreciation	The equity appreciation is not expected to be significant until the units can be converted to market rate after the HOME affordability period.
Identity of Interest Roles	The Developer may act in a general contractor capacity to contract with subcontractors.

In conclusion, the Developer Fee and profit anticipated to be generated by the Developer's investment in the Project are appropriate.

IV. DEVELOPER ASSESSMENT

The following provides an assessment of the experience and the capacity of the Developer to implement the Project. This section also addresses the fiscal soundness of the Developer to meet its financial obligations and risks of the Project.

A. Developer's Financial Capacity

The HOME Program regulations require Participating Jurisdictions to assess the development capacity and fiscal soundness of developers requesting HOME Program assistance. HUD guidance related to this evaluation indicates that a developer's recent, similar, successful experience developing and operating comparable projects may be used to assist in establishing a developer's capacity to undertake a project that is requesting HOME Program assistance.

The financial capacity of the Developer is summarized as follows:

1. The Developer submitted unaudited financial statements for 2017, and audited financial statements for 2015 and 2016 that comply with the generally accepted accounting principles in the United States. The financial statements show that the Developer has significant cash-on-hand and financial strength to complete the Project.

2. The Developer's development capacity is demonstrated by the following:

    a. Since 1994, the Developer has established a development/ownership portfolio that includes 58 properties valued at over $38 million.

    b. The Developer has affirmed that none of their projects have been placed into foreclosure or are at risk of foreclosure.

B. Ability to Perform

HUD guidance related to this evaluation indicates that a developer's recent, similar, successful experience developing and operating comparable projects may be used to assist in establishing a developer's capacity to undertake a project that is requesting HOME Program assistance.

The Developer has developed or rehabilitated numerous similar projects throughout Southern California. The Developer currently owns 58 projects. The following describes two rehabilitation projects that were completed in Los Angeles County:

Banner Drive

In February 2016, the Developer acquired an existing apartment complex on Banner Drive in the Bixby Knolls neighborhood of Long Beach. The Developer rehabilitated the property into seven one-bedroom units which were rented to special needs households. The Developer utilized City of Long Beach HOME funds, a permanent loan, and developer equity to complete the project.

Clark Avenue

In 2016, the Developer acquired an existing apartment building located off Clark Avenue in the City of Long Beach. The Developer rehabilitated the property into seven units of special needs housing for students with developmental disabilities enrolled in the College to Career program attending Long Beach City College. The property also includes one efficiency unit to be utilized for a service provider. The project was completed in partnership with California Mentor, the Harbor Regional Center, the Lennar Charitable Housing Foundation, and the US Bank Foundation.

C. Fiscal Soundness

The Developer has received numerous support from the Harbor Regional Center and local governments. The ability to obtain this funding requires extensive general partner management experience. Therefore, it is determined that the Developer meets the financial management systems and practices requirement imposed by the HOME Program.

As noted above, the Developer submitted unaudited financial statements for 2017, and audited financial statements for 2015 and 2016 that comply with the generally accepted accounting principles in the United States. The financial statements show that the Developer has significant cash-on-hand and financial strength to complete the Project.

D. Conclusion

The Developer has demonstrated the development capacity and fiscal soundness to undertake the Project.

V. MARKET ASSESSMENT

Given the small size of the Project, the Developer did not prepare a formal market study. However, the Developer has a waiting list with 81 special needs applicants for housing within the Long Beach market. Thus, it can be concluded that there is sufficient demand for the proposed Project. It is anticipated that the Project will meet six-month HOME lease-up requirement.

VI. HOME REQUIREMENTS

The following summarizes additional HOME requirements.

A. HOME Program Deadlines

Deadline	Regulations	Projections
Acquisition	§92.2 states that acquisition of housing will occur within six months of contract date	To be completed by June 2018
Demolition/Construction	§92.2 states that construction/demolition of property is scheduled or reasonably can be expected to start within 12 months of the agreement date	To commence by August 2018
Project Completion	§92.205(e)(2) states that the project must be completed within four years of the date the funds are committed to the project.	To be completed by October 2018
Lease-up	§92.252 states that HOME assisted units must be occupied by an eligible tenant within six months following project completion	Sufficient demand to meet this requirement

B. Written Agreement

The City must execute a written agreement before committing HOME funds to the Project. The written agreement must capture the Project and financing terms that result from the underwriting process. The following summarizes the proposed financial deal points to be memorialized in the written agreement:

1. The term of the HOME compliance period must be at least fifteen years.

2. The units will be designated as follows:

   a. One studio unit will be designated as a Low HOME unit; and

   b. Two (2) one-bedroom units and two (2) two-bedroom units will be designated as High HOME units.

3. The HOME Loan terms are as follows:

   a. A total of $875,900 will be disbursed to the Developer for eligible costs related to the construction the HOME-assisted units.

   b. No interest rate will be applied to the HOME Loan unless the Developer is required to repay all or any portion of the Home Loan amount prior to the end of the loan term. In that case, a 6% simple interest rate will be imposed.

c. The HOME Loan will be due and payable at the earliest of:

i. At the end of 30 years;

ii. Upon sale of the property; or

iii. In the event of a default.

d. The HOME Loan is secured by a subordinated deed of trust.

e. The Developer is not required to make annual payments on the HOME Loan.

The written agreement should include the following provisions required by Section 92.504:

Required Provisions	Included in Written Agreement	Section of Written Agreement
Use of HOME Funds	☐	
Affordability	☐	
Project is identified by Address or Legal Description	☐	
Project Requirements	☐	
Property Standards	☐	
Other Federal Requirements	☐	
Affirmative Marketing	☐	
Requests for Disbursement of Funds	☐	
Records & Reports	☐	
Enforcement of the Agreement	☐	
Duration of the Agreement	☐	
Conditions for Religious Organizations	☐	
CHDO Provisions	☐	
Identifies all Parties to the Agreement	☐	
Provides dated signatures for each Party	☐	
Recommended Additional Provisions:	☐	
▪ Description of Project	☐	
▪ Conflict of Interest	☐	
▪ Monitoring	☐	

C. Layering Requirements

HOME regulations require projects to provide a layering analysis demonstrating that the HOME assistance is required to provide affordable housing. Based on the results of the preceding underwriting analysis, KMA concludes that the Developer's request for $875,900 in HOME assistance from the City is warranted by the Project economics. As such, it can be concluded that the assistance package complies with the HOME layering requirement.

D. HOME Unit Designation (Appendix B)

HUD establishes two tests for quantifying the number of units in the Project that must be designated as HOME units for at least fifteen years. One test is referred to as the Development Cost Test, and the other test is called the Subsidy Limit Test. These tests can be described as follows:

Development Cost Test

The Development Cost Test calculates the minimum number of HOME units based on the percentage of the Project's total costs that are funded with the HOME Program assistance. The calculation for the Project is:

1. $875,920 in HOME Program assistance is assumed to be provided.

2. The Developer estimates the Project costs at $2.05 million.

3. Based on the preceding assumptions, the HOME Program assistance is equal to 43% of the Project costs.

Thus, at least 43% of the units in the Project, which is rounded up to three units, must be designated as HOME units.

Subsidy Limit Test

HUD establishes the subsidy limits for the HOME Program based on the number of bedrooms included in the HOME-assisted units. The Subsidy Limit Test for the Project can be described as follows:

1. The Project consists of the following unit mix:

   a. One (1) studio unit;

   b. Two (2) one-bedroom units; and

   c. Two (2) two-bedroom units.

2. The 2018 HOME Subsidy Limit for Los Angeles County are as follows:

   a. Studio units – $144,050

   b. One-Bedroom units – $165,134

   c. Two-Bedroom Units – $200,801

Given that the Project will designate all five units as HOME units, the maximum amount of HOME Program assistance per the 2018 HOME subsidy limits is $875,920.

Designated HOME Units

The Development Cost Test results in the requirement for three designated HOME units, and the Subsidy Limit Test results in a five-unit requirement. Thus, all five units must be designated as HOME units.

The HOME Program requires projects with five or more HOME-designated units to restrict at least 20% of the HOME-designated units to very-low income households. As such, at least one unit in the Project must be designated as a Low HOME unit. KMA assumes the one studio unit will be designated for Low HOME households. The remaining units will be restricted to High HOME households.

E. Affordability Period

The HOME-assisted units must meet the affordability requirements for not less than the applicable period specified in the following table, beginning after project completion:

Rental Projects	Minimum Affordability Period
Acquisition / Rehabilitation Projects:	
HOME Funds Under $15,000 per Unit	5 Years
HOME Funds Over $15,000 up to $40,000 per Unit	10 Years
HOME Funds Over $40,000 per Unit	15 Years
Rehabilitation Projects Involving Refinancing	15 Years
New Construction Projects	20 Years

The HOME Program affordability requirements must:

1. Apply without regard to the term of any loan or mortgage, repayment of the HOME investment, or the transfer of ownership;

2. Be imposed by a deed restriction, a covenant running with the land, an agreement restricting the use of the property, or other mechanisms approved by HUD and must give the City the right to require specific performance; and

3. Must be recorded in accordance with State recordation laws.

The HOME Loan Financing Agreement will require the HOME units to be subject to income and affordability restrictions for at least fifteen years. Therefore, the Project will comply with the HOME covenant period requirement. The affordability restrictions are detailed in the HOME Regulatory Agreement that will be recorded on the property.

F. Cost Allocation (§92.205(d))

HOME funds may only be used to pay eligible costs for HOME assisted units. All five affordable units in the Project will be designated as HOME units. As such, the cost can be allocated across all units within the Project.

G. Property Standards (§92.251)

The Project will be subject to the following property standards:

Property Standard	Included in HOME Agreement
State and local codes, ordinances and zoning requirements	☒
Accessibility: ▪ Accessibility requirements of 24 CFR part 8 ▪ Design and construction requirements at 24 CFR 100.205	☒
Disaster Mitigation	Not Applicable
Written cost estimates, construction contracts and construction documents	☒
Construction progress inspections	☒

H. HOME Rents / Utility Allowances

The owner will pay for all utility costs. The sum of the tenants' rent payments cannot exceed the gross HOME rents.

I. Financial Commitments

The City will enter into the HOME Loan Financing Agreement to provide $875,900 to the Project by June 2018. The Developer did not provide financial commitment documentation for the conventional loan or the Del Harbor Foundation grant.

However, the Developer provided initial underwriting information for the conventional loan which supports the conventional loan amount. In addition, the Developer committed to utilizing Developer equity if the Del Harbor Foundation grant is not awarded.

As such, City staff should review the finalized financial commitment documentation prior to executing the HOME Loan Financing Agreement.

VII. CERTIFICATIONS

Based on the results of the analysis, the following certifications are provided:

Certifications	Requirement Met
The funding sources discussed in this Report are sufficient, and timely in availability, to cover the Project costs.	☒
The estimated costs for the Project are necessary, reasonable, and in compliance with the cost principles described in 2 CFR part 200.	☒
The scope and budget for the Project are sufficient to meet the HOME property standards set forth at 24 CFR 92.251 over the life of the affordability covenants imposed by the HOME Loan Financing Agreement.	☒
The Developer's operating pro forma includes realistic assumptions regarding the base year revenues and expenses, and reasonable escalation factors for the revenues and expenses.	☒
The market assessment confirms the demand for the Project, and the Project can be expected to be leased up within the 18-month period mandated by HUD.	☒
The Developer's experience and financial capacity are adequate to implement the Project, and meet the financial obligations and risks related to the Project.	☒
The Developer Fee, and profit anticipated to be generated by the Developer's investment in the Project are appropriate.	☒
The Project meets the minimum HOME investment requirement of $1,000 per HOME designated unit.	☒
The Project will provide the minimum number of HOME-Assisted Units as required under the cost allocation rule at 24 CFR 92.504.	☒
The HOME Program assistance provided to the Project does not exceed the subsidy limits, and the appropriate number of units have been designated as HOME units as established by 24 CFR 92.504.	☒
In accordance with 24 CFR 92.205(e)(2), the Project will be completed within four years of the date the HOME funds are committed.	☒
The Project will comply with the property standards and affordability requirements imposed by CFR 92.252(e).	☒

VIII. COMMITMENT CHECKLIST (§92.2)

HOME funds are not committed to an identifiable project in IDIS until the parties have provided the following:

Requirements	Requirement Met	Completion Dates
Project is associated with approved Consolidated Plan / Annual Action Plan projects	☒	April 2018
Environmental Review Requirements have been met	☐	Before April 30, 2018
Legally binding written agreement has been executed	☐	Before June 2018
All necessary financing is secured	☐	Before June 2018
Subsidy Layering & Underwriting Analysis Completed	☒	April 3, 2018
Construction Expected to begin within 12 months	☒	Before August 2018
Commitment Date		Before June 2018

Appendix A
Financial Gap Analysis

APPENDIX A - TABLE 1

ESTIMATED DEVELOPMENT COSTS
ACQUISITION & REHABILITATION PROJECT
4 HIGH HOME UNITS & 1 LOW INCOME UNIT
116 REDONDO AVENUE
LONG BEACH, CALIFORNIA

I.	**Property Acquisition Costs**	1					$1,805,000
II.	**Direct Costs**	2					
	Tenant Relocation	3				$88,000	
	Building Rehabilitation		5	Units	$14,000 /Unit	70,000	
	Performance Bond		2%	Direct Costs		2,500	
	Total Direct Costs		**5**	**Units**	**$32,100 /Unit**		**$160,500**
III.	**Indirect Costs**						
	Predevelopment Expenses	4	25%	Direct Costs		$40,100	
	Closing Costs		1.3%	Acquisition Costs		23,500	
	Developer Fee	5	1%	Eligible Costs		25,000	
	Soft Cost Contingency Allowance		5%	Other Indirect Costs		4,000	
	Total Indirect Costs						**$92,600**
IV.	**Total Rehabilitation Costs**		**5**	**Units**	**$50,600 /Unit**		**$253,100**
	Total Development Costs		**5**	**Units**	**$411,600 /Unit**		**$2,058,100**

1 Based on Developer estimate. An appraisal was not available for review. City staff should review the appraisal and confirm the purchase price before executing the HOME Loan Agreement.

2 Based on Developer's estimates. The estimates assume that no prevailing wage requirements will be imposed on the Project.

3 Based on Developer estimate. A relocation plan was not available for review. City staff should review the relocation plan and confirm the relocation costs included in this analysis are appropriate before executing the HOME Loan Agreement.

4 Based on the Developer's estimates. Includes architecture, engineering, consulting, and public permits and fees costs.

5 Equal to 1.0% of the acquisition costs and 10.0% of the rehabilitation costs.

APPENDIX A - TABLE 2

STABILIZED NET OPERATING INCOME
ACQUISITION & REHABILITATION PROJECT
4 HIGH HOME UNITS & 1 LOW INCOME UNIT
116 REDONDO AVENUE
LONG BEACH, CALIFORNIA

I.	**Gross Income**	1						
	Affordable Rental Income	2						
	Sudio Unit - Low HOME		1 Unit @	$788	/Month		9,500	
	One-Bedroom Unit - High HOME		2 Units @	$1,163	/Month		$27,900	
	Two-Bedroom Unit - High HOME		2 Units @	$1,397	/Month		$33,500	
	Rent Subsidy Income	3						
	Sudio Unit		1 Unit @	$279	/Month		3,300	
	One-Bedroom Unit		2 Units @	$121	/Month		2,900	
	Two-Bedroom Unit		2 Units @	$266	/Month		6,400	
	Gross Income						$83,500	
	(Less) Vacancy and Collection		5.0%	Gross Income			(4,200)	
	Social Service Provider Space		1 Unit @	$1,540	/Month		18,500	
	Effective Gross Income							**$97,800**
II.	**Operating Expenses**							
	General Operating Expenses		5 Units @	$3,930	/Unit		$19,700	
	Property Taxes	4					3,000	
	Replacement Reserve		5 Units @	$360	/Unit		1,800	
	Total Operating Expenses		**5 Units @**	**$4,900**	**/Unit**			**($24,500)**
III.	**Stabilized Net Operating Income**							**$73,300**

1 Based on the Los Angeles County 2017 income and rent information distributed by HUD for the HOME Program. Assumes the Owner will pay for all utility costs.

2 The Subsidy Layering Review requires the Project to designate five HOME units. Projects with five or more units must designate at least 20% of the units as Low HOME units. KMA assumes the studio unit is restricted as a Low HOME unit and the one-bedroom and two-bedroom units are restricted as High HOME units.

3 The combination of the tenant-paid rent and the rent subsidy will total the applicable FMR. The FMRs are based on those utilized by the Harbor Regional Center: $1,067 for studio units; $1,284 for one-bedroom units; and $1,663 for two-bedroom units. The actual allocation between tenant-paid rent and rent subsidy revenue will vary from tenant-to-tenant.

4 Assumes the Project will be awarded the property tax abatement accorded to very-low and low income units owned by nonprofit housing organizations. The property tax expense for these units is limited to assessment overrides, which is based on Developer estimate.

APPENDIX A - TABLE 3

FINANCIAL GAP CALCULATION
ACQUISITION & REHABILITATION PROJECT
4 HIGH HOME UNITS & 1 LOW INCOME UNIT
116 REDONDO AVENUE
LONG BEACH, CALIFORNIA

I.	**Available Funding Sources**					
	Permanent Loan	[1]				
	Stabilized Net Operating Income		See APPENDIX A - TABLE 2	$73,300		
	Income Available for Mortgage		1.13 DCR	$64,900 Debt Service		
	Interest Rate / Mortgage Constant		5.75% Interest Rate	6.39% Mortgage Constant		
	Total Permanent Loan				$1,015,000	
	Del Harbor Foundation	[2]			$20,000	
	Developer Contribution	[2]			$116,000	
	Deferred Developer Fee	[2]	100% Total Developer Fee		$25,000	
	Total Available Funding Sources					**$1,176,000**
II.	**Financial Gap Calculation**					
	Total Development Costs		See APPENDIX A - TABLE 1		$2,058,100	
	(Less) Total Available Funding Sources				(1,176,000)	
	Total Financial Gap		**5 Units**	**$176,400 /Unit**		**$882,100**

[1] Assumes a 40-year amortization period.
[2] Based on Developer estimate.

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APPENDIX A - TABLE 4

ACQUISITION & REHABILITATION PROJECT
4 HIGH HOME UNITS & 1 LOW INCOME UNIT
116 REDONDO AVENUE
LONG BEACH, CALIFORNIA

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
I. Gross Residential Income																
Affordable Rental Income	1	$70,900	$71,964	$73,043	$74,139	$75,251	$76,379	$77,525	$78,688	$79,868	$81,066	$82,282	$83,517	$84,769	$86,041	$87,331
Rent Subsidy Income	2	12,600	11,569	10,489	9,393	8,281	9,659	8,513	7,350	6,170	4,972	6,337	5,103	3,850	2,578	2,578
Social Service Provider Space		18,500	18,500	18,500	18,500	18,500	19,055	19,055	19,055	19,055	19,055	19,627	19,627	19,627	19,627	19,627
(Less) Vacancy and Collection		(4,175)	(4,177)	(4,177)	(4,177)	(4,177)	(4,302)	(4,302)	(4,302)	(4,302)	(4,302)	(4,431)	(4,431)	(4,431)	(4,431)	(4,495)
Effective Gross Income		$97,825	$97,855	$97,855	$97,855	$97,855	$100,791	$100,791	$100,791	$100,791	$100,791	$103,815	$103,815	$103,815	$103,815	$105,041
II. Operating Expenses																
General Operating Expenses	3	$19,700	$20,291	$20,900	$21,527	$22,173	$22,838	$23,523	$24,229	$24,955	$25,704	$26,475	$27,269	$28,087	$28,930	$29,798
Property Taxes	4	3,000	3,060	3,121	3,184	3,247	3,312	3,378	3,446	3,515	3,585	3,657	3,730	3,805	3,881	3,958
Replacement Reserve		1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800
Total Operating Expenses		$24,500	$25,151	$25,821	$26,510	$27,220	$27,950	$28,701	$29,475	$30,270	$31,089	$31,932	$32,800	$33,692	$34,611	$35,556
III. Net Operating Income		$73,325	$72,704	$72,034	$71,345	$70,636	$72,841	$72,090	$71,316	$70,521	$69,702	$71,883	$71,015	$70,123	$69,204	$69,484
(Less) Debt Service	5	(64,906)	(64,906)	(64,906)	(64,906)	(64,906)	(64,906)	(64,906)	(64,906)	(64,906)	(64,906)	(64,906)	(64,906)	(64,906)	(64,906)	(64,906)
IV. Net Income After Debt Service		$8,419	$7,799	$7,129	$6,439	$5,730	$7,935	$7,184	$6,411	$5,615	$4,796	$6,977	$6,110	$5,217	$4,298	$4,579

1 Escalated at 101.5% annually.
2 The total services contract is set at $83,500 in Year 1. This amount is equal to the sum of the affordable rents and the subsidy income. This amount is escalated at 103.0% every five years.
3 Escalated at 103.0% annually.
4 Escalated at 102.0% annually.
5 See APPENDIX A - TABLE 3

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Appendix B
HOME Unit Designation

APPENDIX B

HOME UNIT DESIGNATION CALCULATION
ACQUISITION & REHABILITATION PROJECT
4 HIGH HOME UNITS & 1 LOW INCOME UNIT
116 REDONDO AVENUE
LONG BEACH, CALIFORNIA

I.	**Development Costs Test** [1]				
	HOME Funds Requested			$875,920	
	Total Development Costs (See APPENDIX A - TABLE 1)			$2,053,891	
	HOME Funds as % of Total Development Costs			43%	
	HOME Unit Requirement [2]			**3.0**	

		Number of Units	2018 Subsidy Limits	Maximum Subsidy Amount
II.	**Subsidy Limit Test**			
	Studio Units	1	$144,050	$144,050
	1-Bedroom Units	2	$165,134	$330,268
	2-Bedroom Units	2	$200,801	$401,602
	Total HOME Units / Assistance	**5**		**$875,920**

III. **Minimum Number of HOME Designated Units** **5 Units**

[1] The total HOME funds request must be divided by the Project's Total Development Costs. This percentage is then multiplied times the total number of units in the Project. The result is the minimum number of HOME designated units required under the Development Cost calculation methodology.

[2] The obligation is rounded up to the next whole number.

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