ATTACHMENT C

HOME UNDERWRITING & SUBSIDY LAYERING REVIEW

4713 Clark Avenue

City of Long Beach

Keyser Marston Associates, Inc.

July 29, 2019

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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 acquisition of an existing seven-unit apartment complex located at 4713 Clark Avenue (Property). Home Ownership for Personal Empowerment (Developer) proposes to acquire and rehabilitate the existing units and subsequently restrict them to special needs households (Project). HOPE will undertake the Project and will continue to lease the units to individuals with severe developmental disabilities. 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 $1.78 million conventional mortgage;

2. A $100,000 grant from the Ahmanson Foundation;

3. A $25,000 grant from Wells Fargo; and

4. The Developer estimates that the Project will generate $99,000 in rental income during the first year of operations which will be used as a funding source.

The KMA analysis concluded the following:

1. Underwriting Analysis:

   a. The Project costs are estimated at $2.58 million. KMA estimates the available outside funding sources at $1.39 million, which results in a $1.19 million financial gap. The Developer is requesting that the City provide $1,180,200 in HOME funds to the Project, which equates to a $14,600, or approximately 1% differential, between the KMA and Developer estimates. As such, the analysis demonstrates that the proposed $1.18 million in HOME assistance is necessary to provide the proposed affordable housing units.

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 states that they have a waiting list with approximately 200 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 February 2020 and leasing up the Project by June 2020. As such, 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	All units in the Project will be designated as HOME units.
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 apartment complex consisting of seven one-bedroom units.

2. The Developer will restrict the units to individuals with developmental disabilities.

3. The existing laundry room area will be converted to a social service provider office space.

4. The residents will have on-site care and supervision at all times.

5. Each of the units in the Project will be restricted as HOME units. At least 20% of the HOME units, or two units, must be restricted as Low HOME units.

III. PROJECT UNDERWRITING ASSESSMENT (APPENDIX A)

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 July 22, 2019. 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 Assemblage Costs

The total property assemblage costs are estimated at $2.33 million based on the following assumptions:

<u>Property Acquisition Costs</u>

The Developer proposes to acquire the Property for $2.17 million. The Developer provided an appraisal prepared by BAAR Realty Advisors on June 12, 2019. The appraisal estimates the As-Is Market Value of the Property at $2,165,000, which is equal to the proposed purchase price.

Relocation Costs

Five of the units are currently occupied and the Developer anticipates that these tenants will require permanent relocation. The Developer estimates the relocation costs at $120,000, or $24,000 per occupied unit.[1] However, the Developer has not competed a relocation plan at the time of this analysis. The City should review and approve the proposed relocation plan prior to disbursing any funds to the Project.

Closing Costs

The Developer estimates the closing costs at $43,000, or 2% of the property acquisitions costs.

Direct Costs

The direct cost estimates assume that the Project will not be subject to Federal Davis Bacon prevailing wage requirements. The direct costs are estimated at $100,000, and the assumptions can be summarized as follows:[2]

1. The Developer estimates the building rehabilitation costs at $50,000, or approximately $7,100 per unit.

2. The Developer estimates the costs required to convert the laundry facility into a service provider office at $50,000.

Developer Fee

The Developer Fee is set at $32,000, which equates to 1% of the acquisition costs plus 10% of the rehabilitation costs.

Financing / Holding Costs

The financing and holding costs are estimated at $120,800 based on the following assumptions:

1. The Developer proposes to purchase the property using a line of credit. The Developer will be required to make interest only payments for six months on the line of credit that is withdrawn. The interest costs are estimated at $55,000 based on a $2.21 million balance and a 5% interest rate.

2. The Developer proposes to capitalize six months of permanent loan debt service payments. The capitalized debt payment reserve is estimated at $40,000 based on the following:

    a. A $1.18 million permanent loan;

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[1] KMA assumes the total relocation budget includes the costs to prepare the relocation plan.

[2] KMA assumes the building rehabilitation and service provider unit line items include an allowance for contractors' fees and a contingency allowance.

b. A 30-year amortization period; and

c. Annual debt service payments equal to $80,000 per year.

3. The permanent loan origination fees are estimated at 0.5 loan points, or $6,000.

4. The Project includes a $19,800 allowance for operating expenses during the holding period.

Total Development Costs

KMA estimates the total development costs at $2.58 million, which is equal to the Developer's estimate. KMA concludes that the estimates appear reasonable and necessary to complete the Project.

B. Income and Affordability Requirements

The City will provide HOME Program funds to the Project. As such, the Project will be subject to HOME Program household income limits and rent standards. All seven units must be designated as HOME units. Furthermore, at least two of these units must be designated as Low HOME units.

C. Stabilized Net Operating Income

Estimated Effective Gross Income

The Developer will enter into an operating agreement with a to-be-determined Service Provider that is a certified service provider of the Harbor Regional Center. KMA was not provided with a copy of the operating agreement.

Based on the information provided, the Service Provider will provide an operating subsidy based on the Fair Market Rent (FMR) set by the Long Beach Housing Authority. However, each tenant will pay 30% of their income for rent, up to a combined total that does not exceed the applicable HOME rent. The maximum amount of tenant-paid rent is estimated at $98,700 per year. As such, the Service Provider will guarantee rent subsidy income of at least $17,600 per year. In addition, the Service Provider will provide $16,600 in revenue to lease the service provider office space. Thus, the Service Provider will guarantee to provide the Project at least $34,200 in annual revenue in addition to the revenue generated from the maximum amount of the tenants' rent payments.[3]

Although, the Service Provider will guarantee $132,900 in annual revenue to the Project, KMA included a 5% vacancy and collection allowance for underwriting purposes. Thus, KMA estimates the effective gross income (EGI) at $126,300. In comparison, the Developer utilized a 4% vacancy and collection allowance, which results in an EGI of $127,500.

[3] It is likely that the combined rental income from the tenants will be less than the allowable FMR. As such, the Service Provider will likely be required to pay more than $34,200 per year to meet the annual operating assistance amount.

Operating Expenses

The Project's operating expenses are estimated at $34,400 based on the following:

1. The general operating expenses are estimated at $3,900 per unit per year.

2. The property tax payments are estimated at $3,900 per year. KMA assumes that the Developer will apply for the property tax welfare exemption accorded to non-profit housing organizations that own and operate apartment units restricted to households earning no more than 80% of the Area Median Income.

3. The Developer assumed annual operating / replacement reserve deposits of $500 per unit per year.

Stabilized Net Operating Income

KMA estimates the Project's EGI at $126,300, and the operating expenses are estimated at $34,400. This results in estimated stabilized net operating income (NOI) of $91,900. In comparison, the Developer estimates the Project's NOI at $93,200. The difference between the KMA and Developer estimates is due to the slightly different vacancy and collection allowance assumptions.

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

<u>Permanent Loan</u>

The Developer intends to obtain a conventional permanent loan based on the following underwriting terms:

1. A 116% debt service coverage ratio;

2. A 5.50% interest rate; and

3. A 30-year term with annual debt service payments based on a 30-year amortization.

The Developer did not provide commitment documentation; however, 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 estimates that the Project's NOI can support a $1.16 million loan, which is $14,400 less than the Developer's estimate. This differential is due to the difference in vacancy and collection allowance assumptions.

Ahmanson Grant

The Developer anticipates that the Ahmanson Foundation will provide a $100,000 grant to the Project. The Developer did not provide any commitment documentation.

Wells Fargo Grant

Wells Fargo provided a commitment for a $25,000 grant to the Project.

Rental Income

Five of the existing units are currently occupied. These units will generate income for the Project prior to relocation and the start of rehabilitation. The Developer estimates this rental income at $99,000 and will use the income for capital expenses.

Total Available Outside Funding Sources

As shown in Table 3, the outside funding sources available to the Project are estimated at $1.39 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	$2,580,800
(Less) Total Available Funding Sources	(1,386,000)
Financial Gap	**$1,194,800**

The Developer is requesting $1,180,200 in HOME Funds from the City, which is $14,600, or approximately 1% less than the KMA financial gap estimate. Thus, the Developer's financial assistance request is warranted by the Project's economics.

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 the acquisition costs and 10% of the rehabilitation costs, which is reasonable.
Cash Flow	As proposed, the Project's net cash flow will be split 50%/50% between the City and the Developer.
Equity Appreciation	The equity appreciation is not expected to be significant until the units can be converted to market rate units after the affordability covenant expires.
Identity of Interest Roles	No other related parties are expected to participate in the Project.

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 audited financial statements for 2016 and 2017 that comply with the generally accepted accounting principles in the United States. The 2016 and 2017 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 115 properties valued at over $54 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 52 24-hour residential care 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.

Rosecrans Avenue

In March 2016, the Developer acquired a triplex located on Rosecrans Avenue in the City of Norwalk. The Developer rehabilitated the property into a permanent supportive housing project for adults with developmental disabilities. The project was completed in partnership with the City of Norwalk, the Harbor Regional Center, the Rose Hills Foundation, the Bank of the West Foundation, and numerous donors.

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 audited financial statements for 2016 and 2017 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 states that they have a waiting list with approximately 200 applicants for housing within the Long Beach market. Thus, it can be concluded that there is sufficient demand for the proposed Project. As such, 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	June 24, 2019
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	October 2019
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.	February 2020
Lease-up	§92.252 states that HOME assisted units must be occupied by an eligible tenant within six months following project completion	June 2020

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. All seven units will be designated as HOME units. At least two of these units must be designated as Low HOME units.

3. The HOME Loan terms are as follows:

    a. A total of $1.18 million will be disbursed to the Developer for eligible costs related to the acquisition and rehabilitation costs associated with 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. Net cash flow after operating expenses and debt service payments (Residual Receipts) will be split equally (50% / 50%) between the City and the Developer. The City's share of Residual Receipts payments will be applied to the outstanding HOME Loan balance.

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 $1,180,200 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 Subsidy Limits (Appendix B)

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 seven (7) one-bedroom units.
2. The 2019 HOME Subsidy Limit for a one-bedroom unit in Los Angeles County is $171,802.
3. The maximum amount of HOME assistance that can be contributed to the seven-unit Project is $1,202,614.
4. The City's HOME assistance amount of $1,180,200 is below the maximum HOME assistance amount per the 2019 HOME Subsidy Limits.

The HOME Program requires that at least 20% of HOME designated units be restricted as Low HOME units, while the remaining HOME designated units may be restricted to High HOME units. As such, at least two units in the Project must be designated as Low HOME units.

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. When the City designates fewer than 100% of the units as HOME assisted, the City must calculate the eligible costs that are allocable to the assisted units and may only pay the actual costs related to those HOME assisted units, capped by the maximum subsidy limits described above.

The seven HOME units are determined to be the entire Project. As such, the cost allocation requirement does not apply to this Project.[4]

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	☒

[4] KMA included the cost allocation methodology in Appendix B for illustration purposes. However, cost allocation is not required when 100% of the units are designated as HOME units.

H. HOME Rents / Utility Allowances

The owner will pay for all utility costs. The tenants' rent payments cannot exceed the applicable 2019 HOME rents for one-bedroom units as follows:

1. Low HOME Rent - $979 per unit per month.
2. High HOME Rent - $1,253 per unit per month

I. Financial Commitments

The City will enter into the HOME Loan Financing Agreement to provide $1.18 million in HOME funds to the Project. The Developer only provided financial commitment documentation for the Wells Fargo grant. The City should review the other financial commitment documentation prior to committing HOME funds to the Project.

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.	☒

Certifications	Requirement Met
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	☐	
Environmental Review Requirements have been met	☐	
Legally binding written agreement has been executed	☐	
All necessary financing is secured	☐	
Subsidy Layering & Underwriting Analysis Completed	☐	
Construction Expected to begin within 12 months	☐	October 2019
Commitment Date	☐	

Appendix A
Financial Gap Analysis

APPENDIX A - TABLE 1

ESTIMATED DEVELOPMENT COSTS
ACQUISITION & REHABILITATION PROJECT
7 HOME UNITS
4713 CLARK AVENUE
LONG BEACH, CALIFORNIA

I.	**Property Assemblage Costs**						
	Property Acquisition Costs	1	7 Units			$2,165,000	
	Tenant Relocation	2	5 Occupied Units	$24,000	/Occupied Unit	120,000	
	Closing Costs		2% Property Acquisition Costs			43,000	
	Total Property Assemblage Costs						**$2,328,000**
II.	**Direct Costs**	3					
	Building Rehabilitation		7 Units	$7,100	/Unit	$50,000	
	Service Provider Unit		Allowance			50,000	
	Total Direct Costs		7 Units	**$14,300**	/Unit		**$100,000**
III.	**Developer Fee**	4	**1% Eligible Costs**				**$32,000**
IV.	**Financing / Holding Costs**						
	Acq Line of Credit Interest Only	5	6 Months	5.0%	Interest	$55,000	
	Perm Loan Debt Service Pmts		6 Months Debt Service Payments			40,000	
	Loan Origination Fees		$1,162,000 Loan	0.50	Points	6,000	
	Operating Expenses During Holding Period					19,800	
	Total Financing / Holding Costs						**$120,800**
V.	**Total Rehabilitation Costs**		**7 Units**	**$36,100**	**/Unit**		**$252,800**
	Total Development Costs		**7 Units**	**$368,700**	**/Unit**		**$2,580,800**

1 An appraisal prepared by BAAR Realty Advisors on June 12, 2019 estimates the As-Is Market Value of the property at $2,165,000, which is equal to the purchase price.

2 Based on Developer estimate. There are currently five occupied units. 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.

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

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

5 The Developer will draw $2,208,300 from a line of credit to purchase the property. The Developer will make interest-only payments for six months until the permanent loan closes.

APPENDIX A - TABLE 2

STABILIZED NET OPERATING INCOME
ACQUISITION & REHABILITATION PROJECT
7 HOME UNITS
4713 CLARK AVENUE
LONG BEACH, CALIFORNIA

I.	**Gross Income** [1]				
	Affordable Rental Income [2]				
	One-Bedroom - Low HOME	2 Units @	$979 /Month	$23,500	
	One-Bedroom - High HOME	5 Units @	$1,253 /Month	75,200	
	Rent Subsidy Income				
	One-Bedroom - Low HOME	2 Units @	$405	9,700	
	One-Bedroom - High HOME	5 Units @	$131	7,900	
	Social Service Provider Space	1 Unit @	$1,384 /Month	16,600	
	Gross Income			$132,900	
	(Less) Vacancy and Collection	5.0% Gross Income		(6,600)	
	Effective Gross Income				**$126,300**
II.	**Operating Expenses**				
	General Operating Expenses	7 Units @	$3,860 /Unit	$27,000	
	Property Taxes [3]			3,900	
	Operating / Replacement Reserves	7 Units @	$500 /Unit	3,500	
	Total Operating Expenses	**7 Units @**	**$4,900 /Unit**		**($34,400)**
III.	**Stabilized Net Operating Income**				**$91,900**

1 Based on the Los Angeles County 2019 income and rent information distributed by HUD for the HOME Program. Assumes the Owner will pay for all utility costs.

2 The combination of the tenant-paid rent and the rent subsidy will total the applicable FMR. The FMR for a one-bedroom unit is set at $1,384/unit/month per the Harbor Regional Center. The actual allocation between tenant-paid rent and rent subsidy revenue will vary from tenant-to-tenant.

3 Assumes the Project will be awarded the property tax abatement accorded to non-profit housing organizations that own and operate apartment units restricted to households earning 80% AMI and below. The property tax expense for these units is limited to assessment overrides, which is based on Developer estimate.

Prepared by: Keyser Marston Associates, Inc.
File Name: 4713 Clark_7 29 19; Pf; trb

APPENDIX A - TABLE 3

FINANCIAL GAP CALCULATION
ACQUISITION & REHABILITATION PROJECT
7 HOME UNITS
4713 CLARK AVENUE
LONG BEACH, CALIFORNIA

I. **Available Funding Sources**

Permanent Loan	1				
Stabilized Net Operating Income		See APPENDIX A - TABLE 2	$91,900		
Income Available for Mortgage		1.16 DCR	$79,200 Debt Service		
Interest Rate / Mortgage Constant		5.50% Interest Rate	6.81% Mortgage Constant		
Total Permanent Loan				$1,162,000	
Ahmanson Grant	2			$100,000	
Wells Fargo Grant	2			$25,000	
First Year Rental Income	2			$99,000	
Total Available Funding Sources					**$1,386,000**

II. **Financial Gap Calculation**

Total Development Costs	See APPENDIX A - TABLE 1		$2,580,800	
(Less) Total Available Funding Sources			(1,386,000)	
Total Financial Gap	**7 Units**	**$170,700 /Unit**		**$1,194,800**

1 Assumes a 30-year amortization period.
2 Based on Developer estimate.

Prepared by: Keyser Marston Associates, Inc.
File Name: 4713 Clark_7 29 19; Pf; trb

APPENDIX A - TABLE 4

ACQUISITION & REHABILITATION PROJECT
7 HOME UNITS
4713 CLARK 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		$98,700	$100,181	$101,683	$103,208	$104,757	$106,328	$107,923	$109,542	$111,185	$112,853	$114,545	$116,264	$118,008	$119,778	$121,574
Rent Subsidy Income	2		17,600	32,684	31,181	29,656	28,107	30,522	28,927	27,308	25,665	23,997	26,410	24,692	22,948	21,178	21,178
Social Service Provider Space			16,600	16,600	16,600	16,600	16,600	17,098	17,098	17,098	17,098	17,098	17,611	17,611	17,611	17,611	17,611
(Less) Vacancy and Collection			(6,645)	(6,643)	(6,643)	(6,643)	(6,643)	(6,842)	(6,842)	(6,842)	(6,842)	(6,842)	(7,048)	(7,048)	(7,048)	(7,048)	(7,138)
Effective Gross Income			$126,255	$142,821	$142,821	$142,821	$142,821	$147,105	$147,105	$147,105	$147,105	$147,105	$151,519	$151,519	$151,519	$151,519	$153,225
II. Operating Expenses																	
General Operating Expenses	3		$27,000	$27,810	$28,644	$29,504	$30,389	$31,300	$32,239	$33,207	$34,203	$35,229	$36,286	$37,374	$38,496	$39,650	$40,840
Property Taxes	4		3,900	3,978	4,058	4,139	4,221	4,306	4,392	4,480	4,569	4,661	4,754	4,849	4,946	5,045	5,146
Operating / Replacement Reserves			3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Total Operating Expenses			$34,400	$35,288	$36,202	$37,142	$38,110	$39,106	$40,131	$41,186	$42,272	$43,390	$44,540	$45,723	$46,942	$48,195	$49,486
III. Net Operating Income			$91,855	$107,533	$106,619	$105,678	$104,711	$107,999	$106,974	$105,919	$104,833	$103,716	$106,979	$105,795	$104,577	$103,323	$103,740
(Less) Debt Service	5		(79,172)	(79,172)	(79,172)	(79,172)	(79,172)	(79,172)	(79,172)	(79,172)	(79,172)	(79,172)	(79,172)	(79,172)	(79,172)	(79,172)	(79,172)
IV. Net Income After Debt Service			$12,683	$28,360	$27,446	$26,506	$25,538	$28,827	$27,801	$26,746	$25,661	$24,543	$27,806	$26,623	$25,404	$24,151	$24,567
V. Residual Receipts Payments																	
City Share		50%	$6,341	$14,180	$13,723	$13,253	$12,769	$14,413	$13,901	$13,373	$12,830	$12,272	$13,903	$13,311	$12,702	$12,075	$12,284
Total City RRs			**$369,563**	**Nominal Dollars**		**$117,844**	**Net Present Value @ 10% Discount Rate**										
Developer Share		50%	$6,341	$14,180	$13,723	$13,253	$12,769	$14,413	$13,901	$13,373	$12,830	$12,272	$13,903	$13,311	$12,702	$12,075	$12,284
Total Developer RRs			**$369,563**	**Nominal Dollars**		**$117,844**	**Net Present Value @ 10% Discount Rate**										

[1] Escalated at 101.5% annually.
[2] The total service provider contract is set at $132,900 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 A - TABLE 4

ACQUISITION & REHABILITATION PROJECT
7 HOME UNITS
4713 CLARK AVENUE
LONG BEACH, CALIFORNIA

	Year 16	Year 17	Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30
I. Gross Residential Income															
Affordable Rental Income	$123,398	$125,249	$127,128	$129,035	$130,970	$132,935	$134,929	$136,953	$139,007	$141,092	$143,208	$145,356	$147,537	$149,750	$151,996
Rent Subsidy Income	21,786	21,786	21,786	21,786	21,786	16,605	16,605	16,605	16,605	16,605	10,817	10,817	10,817	10,817	10,817
Social Service Provider Space	18,139	18,139	18,139	18,139	18,139	18,683	18,683	18,683	18,683	18,683	19,244	19,244	19,244	19,244	19,244
(Less) Vacancy and Collection	(7,259)	(7,352)	(7,446)	(7,541)	(7,638)	(7,477)	(7,577)	(7,678)	(7,781)	(7,885)	(7,701)	(7,809)	(7,918)	(8,028)	(8,141)
Effective Gross Income	$156,064	$157,823	$159,607	$161,419	$163,258	$160,746	$162,640	$164,563	$166,515	$168,496	$165,568	$167,609	$169,680	$171,783	$173,917
II. Operating Expenses															
General Operating Expenses	$42,065	$43,327	$44,627	$45,966	$47,345	$48,765	$50,228	$51,735	$53,287	$54,885	$56,532	$58,228	$59,975	$61,774	$63,627
Property Taxes	5,249	5,354	5,461	5,570	5,682	5,795	5,911	6,029	6,150	6,273	6,398	6,526	6,657	6,790	6,926
Operating / Replacement Reserves	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Total Operating Expenses	$50,814	$52,181	$53,588	$55,036	$56,526	$58,060	$59,639	$61,264	$62,937	$64,658	$66,430	$68,254	$70,132	$72,064	$74,053
III. Net Operating Income	$105,250	$105,642	$106,020	$106,383	$106,731	$102,686	$103,001	$103,299	$103,578	$103,837	$99,138	$99,355	$99,549	$99,719	$99,864
(Less) Debt Service	(79,172)	(79,172)	(79,172)	(79,172)	(79,172)	(79,172)	(79,172)	(79,172)	(79,172)	(79,172)	(79,172)	(79,172)	(79,172)	(79,172)	(79,172)
IV. Net Income After Debt Service	$26,078	$26,469	$26,847	$27,211	$27,559	$23,513	$23,829	$24,127	$24,405	$24,665	$19,966	$20,182	$20,376	$20,546	$20,691
V. Residual Receipts Payments															
City Share	$13,039	$13,235	$13,424	$13,605	$13,779	$11,757	$11,914	$12,063	$12,203	$12,332	$9,983	$10,091	$10,188	$10,273	$10,346
Total City RRs															
Developer Share	$13,039	$13,235	$13,424	$13,605	$13,779	$11,757	$11,914	$12,063	$12,203	$12,332	$9,983	$10,091	$10,188	$10,273	$10,346
Total Developer RRs															

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Appendix B
HOME Unit Designation

APPENDIX B
HOME COST ALLOCATION WORKSHEET - STANDARD MODEL
4713 CLARK AVENUE
LONG BEACH, CALIFORNIA

Step 1: Determine Comparability, Select Method of Cost Allocation			**Standard Method**
		Net Residential SF	**4,256**
Step 2: Proposed HOME Investment			**$1,180,200**
Step 3: Calculate Actual Cost of HOME Units			
Total Development Costs			$2,580,543
Ineligible Development Costs	See Below		(50,000)
Unit-Specific Upgrades			0
Relocation Costs			120,000
Assign Relocation Exclusively to HOME Units?			NO
Base Project Cost		**$595 /Sf Gross Residential SF**	**$2,530,543**

Assign Units	# of Bdrms	Unit Size	Cost/Unit
1	1	608	$361,506
2	1	608	$361,506
3	1	608	$361,506
4	1	608	$361,506
5	1	608	$361,506
6	1	608	$361,506
7	1	608	$361,506

Subtotal HOME Unit Costs	**$2,530,543**
Add: Relocation Costs Allocated Exclusively to HOME Units (if applicable)	$0
Actual Cost of HOME Units	**$2,530,543**

Step 4: Calculate Maximum Project Subsidy

Unit Size	# of Units	Max Subsidy/Unit	Maximum Subsidy
1 Bedroom	7	$171,802	$1,202,614
Maximum Project Subsidy	**7**		**$1,202,614**

Step 5: Maximum HOME Investment, Lesser of

Proposed Investment (Step 2)	$1,180,200
Actual Cost of HOME Units (Step 3)	$2,530,543
Maximum Project Subsidy (Step 4)	$1,202,614

Maximum HOME Investment	**7 HOME Units**	**$1,180,200**

Ineligible HOME Development Costs

Provider Unit Costs	$50,000	
Operating Reserve	0	
Total Ineligible HOME Development Costs		**$50,000**

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