

## MEMORANDUM



The  
**Long Beach  
Housing  
Development  
Company**

**DATE:** January 20, 2010

**TO:** Board of Directors  
The Long Beach Housing Development Company

**FROM:** Executive Review Committee

**PREPARED BY:** Meggan Sorensen, Development Project Manager

**SUBJECT:** **Loan Agreement between The Long Beach Housing Development Company and Palm Desert Development Company for a 61-Unit Senior Rental Development located at 3290 East Artesia Boulevard (CD 9)**

### RECOMMENDATIONS

1. Approve a loan of up to \$9,516,000 to Palm Desert Development Company to provide gap financing for the development of a 61-unit affordable senior rental project located at 3290 East Artesia Boulevard, with conditions;
2. Authorize the President or designee to negotiate and enter into an Agreement with Palm Desert Development Company; and
3. Authorize the President or designee to execute any and all documents necessary to implement the Agreement.

### DEVELOPER BACKGROUND

Palm Desert Development Company (Palm Desert) is a for-profit residential real estate developer and builder with 30 years of experience. The company primarily develops affordable multi-family residences in Southern California and Arizona, and has also built numerous single-family units. It has successfully completed and currently operates twelve tax credit multi-family communities throughout Riverside County alone. These communities represent approximately 1,000 quality affordable homes for both families and senior citizens. Each of these communities is managed by a full time on-site professional property manager. Palm Desert's in-house development staff includes a dedicated Government Relations Officer to facilitate cooperative relationships with government agencies, neighborhood groups and residents, and an Asset Manager to oversee property management, maintenance and community service programs.

**MAKING  
AFFORDABLE  
HOUSING  
HAPPEN**

AGENDA ITEM NO. 3

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## **PROJECT DESCRIPTION**

The proposed development (Ramona Park Senior Apartments) consists of a 61-unit senior (55+) apartment complex that includes community gardens and courtyards, a pool, classroom/computer lab, community room, exercise and yoga rooms, a program coordinator office and laundry facilities on each of the two residential stories. The table below shows the proposed unit mix.

<b>Affordability</b>	<b>1 Bedroom</b>	<b>2 Bedrooms</b>	<b>Total</b>
Very Low	32	8	40
Low	16	4	20
Manager		1	1
<b>Total</b>	<b>48</b>	<b>13</b>	<b>61</b>

The proposed development site is located at 3290 East Artesia Boulevard, on the south side of Artesia between Obispo and Indiana Avenues, within the North Long Beach Redevelopment Project Area (see attached map). It is adjacent to Ramona Park and is near single and multifamily residences as well as a senior assisted living facility. The 1.7-acre site is currently used as a branch of Farmers and Merchants Bank, with whom Palm Desert has entered into a Purchase and Sale Agreement for the price of \$4,970,000.

The site is currently zoned Community Commercial Automotive (CCA) which does not allow residential uses. Palm Desert is working with the City of Long Beach Development Services Department to resolve this issue through a zone change. It is anticipated that the project will receive entitlements (including approval of a zone change) at the Planning Commission meeting scheduled for January 7, 2010.

In addition to working with Development Services staff for several months, Palm Desert has spent over a year gaining the support of the community by presenting the project at approximately 10 neighborhood meetings.

## **REQUEST FOR FINANCIAL ASSISTANCE**

The total project development cost is estimated at \$21,864,000. The developer has identified potential funding sources in the amount of \$12,348,000, leaving a gap of approximately \$9.5 million. Palm Desert's budget showed a financial gap of \$9,599,000 and has submitted a request for LBHDC financial assistance in that amount. Staff requested Keyser Marston Associates (KMA) to review the developer's proforma. In KMA's analysis, the warranted assistance from the LBHDC is \$9,425,000 (see the attached analysis for more detail). The \$174,000 difference is due to an \$83,000 disparity between Palm Desert's and KMA's direct cost estimates, and a \$91,000 disparity resulting from a 2% difference in the vacancy allowance used to calculate net operating income for the project. Palm Desert was willing to reduce their estimated

direct costs by \$83,000 to be in line with KMA's cost estimate. However, they argued to keep the higher vacancy allowance and provided letters of support from two different lenders/investors, bringing the gap to \$9,516,000 or \$158,600 per affordable unit.

The developer intends to apply for tax credit funding in March 2010. The tax credit process is extremely competitive and it is necessary for the developer to show a committed source of funding to score well on the application.

Staff recommends approval of a loan of \$9,516,000, contingent upon the award of tax credits as well as approval of the necessary zoning change and project entitlements. No LBHDC funds will be disbursed until these awards/approvals are received. The loan will be structured as a residual receipts note at 0% interest rate and will mature in 55 years.

If the developer obtains funding as planned, it is expected that the project will break ground in November 2010 and LBHDC funds will be released according to the following schedule:

<b>Proposed Timing</b>	<b>Use</b>	<b>Amount</b>
April 2011 (25% Complete)	Construction	\$2,375,000
July 2011 (50% Complete)	Construction	\$2,375,000
November 2011 (75% Complete)	Construction	\$2,375,000
February 2012 (Certificate of Occupancy)	Construction	\$2,391,000
<b>Total</b>		<b>\$9,516,000</b>

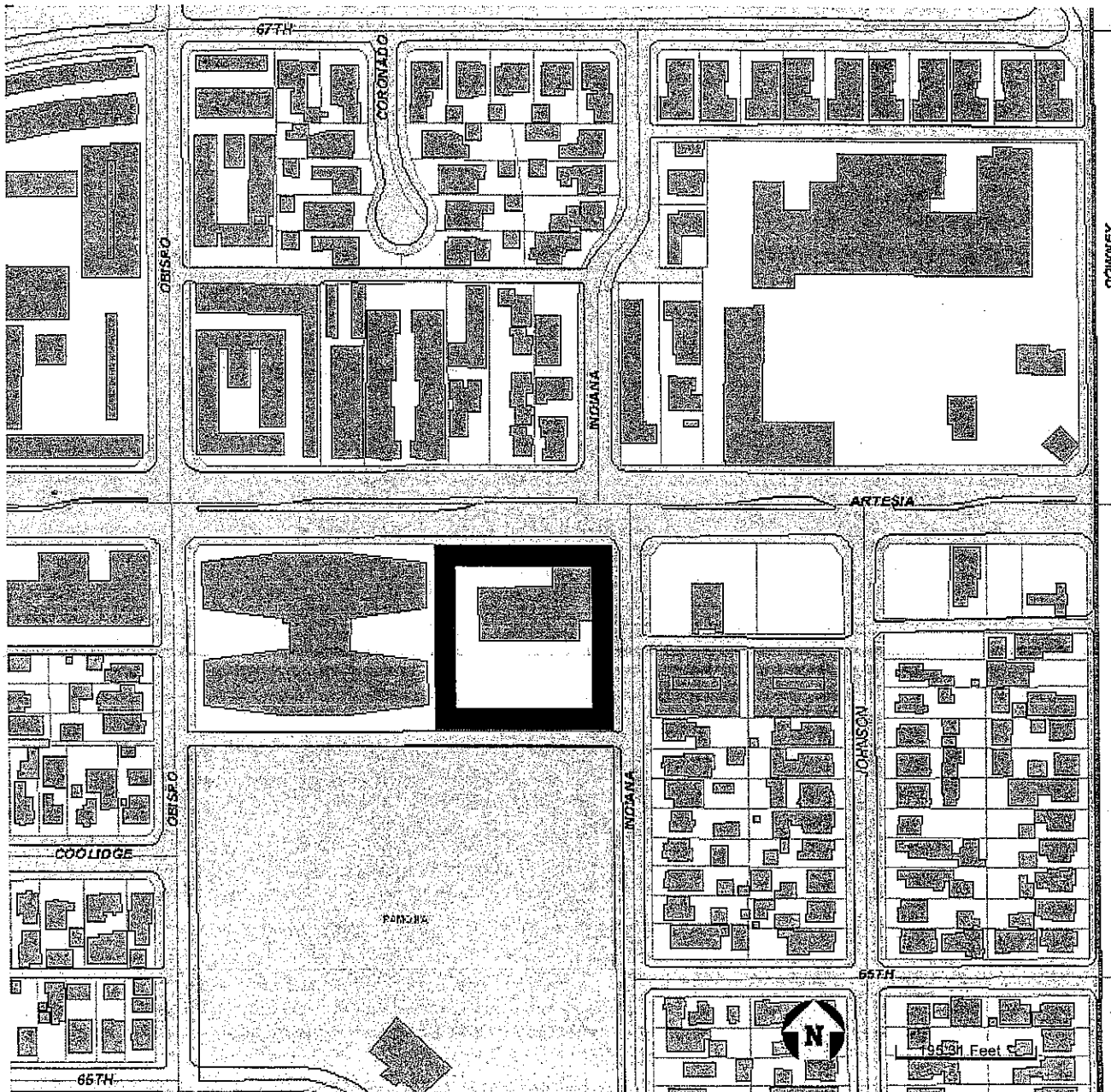
The Projects Committee approved Stage I of the Design Review Process for this project on November 10, 2009. Further, the recommended actions were presented and reviewed by the Executive Review Committee at its November 10, 2009 meeting. The ERC recommends full Board approval of these recommendations.

Attachments:

- Map indicating proposed development site
- KMA Analysis

ET:PU:MS

## Site for Proposed Ramona Park Senior Apartments



### Disclaimer

DISCLAIMER OF DATA ACCURACY: The services provided on this web site are intended for informational purposes only and the GIS data used is compiled from various sources and is subject to constant change. While reasonable effort has been made to ensure the accuracy of the data, the information provided herein may be inaccurate or out of date.

TABLE 1

**ESTIMATED DEVELOPMENT COSTS  
RAMONA PARK SENIOR APARTMENTS  
LONG BEACH, CALIFORNIA**

<b>I. Land Assemblage Costs<sup>1</sup></b>				
Land Acquisition Costs	74,488	Sf Land	\$67 /Sf Land	\$4,970,000
Demolition Costs <sup>2</sup>	11,650	Sf Building	\$34 /Sf Building	400,000
<b>Total Land Assemblage Costs</b>	<b>74,488</b>	<b>Sf Land</b>	<b>\$72 /Sf Land</b>	<b>\$5,370,000</b>
<b>II. Direct Costs<sup>3</sup></b>				
Off-site Improvements				\$95,000
On-site Improvements <sup>4</sup>	74,488	Sf Land	\$20 /Sf Land	1,462,000
Podium Parking Costs	67	Spaces	\$31,692 /Space	2,123,000
Residential Shell Costs <sup>5</sup>	66,076	Sf GBA	\$82 /Sf GBA	5,422,000
Furnishings, Fixtures & Equipment	61	Units	\$1,639 /Unit	100,000
Contractor Fees / General Requirements	14%	Construction Costs		1,274,000
General Liability Insurance	2%	Construction Costs		218,000
Contingency Allowance	5%	Other Direct Costs		535,000
<b>Total Direct Costs</b>	<b>66,076</b>	<b>Sf GBA</b>	<b>\$170 /Sf GBA</b>	<b>\$11,229,000</b>
<b>III. Indirect Costs</b>				
Architecture, Engineering & Consulting	7%	Direct Costs		\$751,000
Permits & Fees <sup>6</sup>	61	Units	\$16,206 /Unit	989,000
Taxes, Legal & Accounting	1.5%	Direct Costs		168,000
Insurance	61	Units	\$0 /Unit	-
Marketing & Leasing	61	Units	\$1,639 /Unit	100,000
Developer Fee <sup>7</sup>				2,000,000
Contingency Allowance	5%	Other Indirects		200,000
<b>Total Indirect Costs</b>				<b>\$4,208,000</b>
<b>IV. Financing Costs</b>				
Interest During Construction <sup>8</sup>	\$7,851,000	Loan Amount	5.25% Interest	\$605,000
Financing Fees				
Construction Loan	\$7,851,000	Loan Amount	2.00 Points	157,000
Permanent Loan	\$945,000	Loan Amount	2.00 Points	19,000
Reserves				
Operating	61	Units	\$1,590 /Unit	97,000
TCAC Fees <sup>9</sup>				88,000
<b>Total Financing Costs</b>				<b>\$966,000</b>
<b>V. Total Development Costs</b>	<b>66,076</b>	<b>Sf GBA</b>	<b>\$330 /Sf GBA</b>	<b>\$21,773,000</b>

<sup>1</sup> Based on Developer estimate.

<sup>2</sup> Building size based on information provided in CBRE Appraisal prepared on December 5, 2008.

<sup>3</sup> Estimates assume prevailing wage requirements will NOT be imposed on the Project.

<sup>4</sup> Includes costs for 27 at-grade parking spaces.

<sup>5</sup> Residential gross building area based on information provided in the Building Area chart on the site plan and assumes a 61-unit Project.

<sup>6</sup> Based on Developer's per unit estimate. The estimate should be verified by City staff.

<sup>7</sup> This amount is the maximum allowed by TCAC in the eligible basis calculation.

<sup>8</sup> Includes debt on the 75% of the Tax Credit Equity which will not be funded during construction. Assumes a 16-month construction period with a 60% average outstanding balance and a 8-month absorption period with a 100% average outstanding balance.

<sup>9</sup> Includes a \$2,000 application fee; \$410/unit monitoring fee; and 4% of the gross Tax Credit proceeds for one year.

TABLE 2

**STABILIZED NET OPERATING INCOME  
RAMONA PARK SENIOR APARTMENTS  
LONG BEACH, CALIFORNIA**

<b>I. Gross Residential Income<sup>1</sup></b>				
Manager's Unit	1 Unit	\$0 /Unit/Month	\$0	
<u>VL Inc Redev/Tax Credit @ 30% Median</u>				
1-Bedroom Units @ (653-Sf)	5 Units	\$386 /Unit/Month	23,160	
2-Bedroom Units @ (900-Sf)	2 Units	\$462 /Unit/Month	11,090	
<u>VL Inc Redev/Tax Credit @ 35% Median</u>				
1-Bedroom Units @ (653-Sf)	5 Units	\$461 /Unit/Month	27,660	
2-Bedroom Units @ (900-Sf)	1 Units	\$551 /Unit/Month	6,610	
<u>VL Inc Redev/Tax Credit @ 50% Median</u>				
1-Bedroom Units @ (653-Sf)	22 Units	\$562 /Unit/Month	148,370	
2-Bedroom Units @ (900-Sf)	5 Units	\$626 /Unit/Month	37,560	
<u>Low Inc Redev/Tax Credit @ 60% Median</u>				
1-Bedroom Units @ (653-Sf)	16 Units	\$687 /Unit/Month	131,900	
2-Bedroom Units @ (900-Sf)	4 Units	\$766 /Unit/Month	36,770	
<b>Gross Residential Income</b>	61 Units		\$423,120	
Laundry/Miscellaneous Income	61 Units	\$15 /Unit/Month	10,800	
<b>Gross Income</b>			\$433,920	
(Less) Vacancy & Collection Allowance	5% Gross Income		(21,700)	
<b>Effective Gross Income</b>				<b>\$412,220</b>
<b>II. Operating Expenses</b>				
General Operating Expenses	61 Units	\$4,629 /Unit	\$282,390	
Property Taxes <sup>2</sup>	61 Units	\$50 /Unit	3,050	
Services	61 Units	\$344 /Unit	21,000	
Replacement Reserve	61 Units	\$250 /Unit	15,250	
<b>Total Operating Expenses</b>	61 Units	5,274 /Unit		<b>\$321,690</b>
<b>III. Net Operating Income</b>				<b>\$90,530</b>

<sup>1</sup> Based on Los Angeles County 2009 Incomes distributed by HUD/HCD. As pertinent, the rents are based on rents published in 2009 by TCAC and California Health and Safety Code Section 50053. Utility Allowances per LBHA 2009 for energy efficient units: \$59 for 1-Bdrm units and \$73 for 2-Bdrm units.

<sup>2</sup> Based on the assumption that the Developer will receive the property tax abatement accorded to non-profit housing organizations that develop income-restricted apartments.

TABLE 3

**FINANCIAL GAP  
RAMONA PARK SENIOR APARTMENTS  
LONG BEACH, CALIFORNIA**

**I. Available Funding Sources****Permanent Loan**

Net Operating Income	\$90,530	NOI (See Table 2)	
Income Available for Mortgage	1.20	DCR	\$75,442 Debt Service
Interest Rate	7.00%	Interest Rate	7.98% Mortgage Constant

**Permanent Loan** **\$945,000**

**Tax Credit Equity<sup>1</sup>**

Gross Tax Credit Value	\$15,148,000	
Syndication Rate	\$0.71	/Tax Credit Dollar

**Net Tax Credit Equity** **\$10,755,000**

**General Partner Equity**<sup>2</sup> **\$648,000**

**Total Available Funding Sources** **\$12,348,000**

**II. Financial Gap Calculation**

Total Development Costs	\$21,773,000
(Less) Total Available Funding Sources	(12,348,000)

<b>III. Financial Gap</b>	<b>61 Units</b>	<b>\$154,500 /Unit</b>	<b>\$9,425,000</b>
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<sup>1</sup> Assumes a \$12.9 million eligible basis, which includes a 0% voluntary basis reduction, a 130% difficult-to-develop premium, a 9.0% Tax Credit rate and an applicable fraction of 100%.

<sup>2</sup> Based on Developer estimate.