

MEMORANDUM



The
**Long Beach
Housing
Development
Company**

Date: February 17, 2010

To: Board of Directors
The Long Beach Housing Development Company

From: Ellie Tolentino, Vice President *Patrick L. / for*

Prepared by: Meggan Sorensen, Development Project Manager

Subject: **Loan Agreement between The Long Beach Housing Development Company and Meta Housing Corporation for Phase I of a Transit Oriented Mixed Use Development at Long Beach Boulevard and Anaheim Street (CD1)**

RECOMMENDATIONS

- 1) Approve a loan of up to \$13,145,000 to Meta Housing Corporation to provide gap financing for the development of a 147-unit Senior Artist Colony and a 39-unit affordable senior rental project at the southwest corner of Long Beach Boulevard and Anaheim Street, with conditions;
- 2) Approve the proposed Phasing Plan for the total development site;
- 3) Approve the release of LBHDC's first trust deed on a parcel in Phase II in exchange for a second trust deed on the entire Phase II site, with conditions;
- 4) Authorize the President or designee to negotiate and enter into a Loan Agreement with Meta Housing Corporation; and
- 5) Authorize the President or designee to execute any and all documents necessary to implement the Loan Agreement.

BACKGROUND

On September 19, 2007, the LBHDC approved a loan of \$5,152,000 to Meta Housing Corporation (Meta) to complete the acquisition of a site at the southwest corner of Long Beach Boulevard and Anaheim Street for the development of a proposed mixed-use, mixed-income transit-oriented development. The original proposal consisted of three mixed-income residential buildings (two senior rental and one for-sale condominiums), a large park-like open space area for all residents, private open space areas for the rental and condominium buildings, and two large public courtyard spaces, one open to Long Beach Boulevard and the other to Anaheim Street, allowing for pedestrian friendly retail uses and a vibrant urban corner. On February 20, 2008, the LBHDC authorized an Exclusive

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AGENDA ITEM NO. 3

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Negotiation Agreement with Meta for the development of the site, and on January 21, 2009, the LBHDC reviewed the project's design and granted its Stage I approval under the Design Review Process. Copies of all three LBHDC staff reports are attached for your information and reference.

PHASING PLAN

In July 2009, Meta and the City were awarded almost \$26,000,000 in Transit-Oriented Development (TOD) and Infill Infrastructure Grant (IIG) funds from the California State Department of Housing and Community Development (HCD). Competition for these funds was very stiff; thus, the funding award was very significant.

The State funds provided key financing for the project. However, given the collapse of the financial and housing markets, funding for the condominium and retail components is not currently available. Meanwhile, the developer has identified and applied for a very attractive funding source for the rental components of the project. These are tax-exempt bonds proceeds issued through the New Issue Bonds Program (NIBP) administered by the US Department of Housing and Urban Development. If received, Meta is required to begin construction by December 2010.

In order to avail of the NIBP funds, Meta proposes to develop the project in two phases. Phase I will include the two rental buildings - a 147-unit mixed-income senior artist colony (Phase IA) and a 39-unit affordable senior apartment building (Phase IB). Phase II will include 170 condominium units and 25,500 sq. ft. of retail space. See attached site parcel map.

The phasing plan addresses the current lack of funding and uncertainties in both the for-sale residential and retail markets, while taking advantage of preferential financing that is available now for the rental components. The phased project, as proposed, preserves the integrity of the original project design that the Board has approved and the residential composition remains unchanged.

The Development Services Department staff has approved the phasing plan. This approval includes a delay of 50% of the required off-site improvements, predominately along Long Beach Boulevard, until Phase II is developed. Given that a timeline for Phase II has not been established, staff is requiring Meta to provide fencing, landscaping and hardscaping on the Phase II site during the interim.

PHASE IA – SENIOR ARTIST COLONY

Description: The senior artist colony (SAC) building, intended for active seniors age 55 and above, will encompass 147 apartment units and amenity space that is designed to provide opportunities for lifelong learning for the residents and will include a pool and spa, community room, library, theater, game room, art studios, classrooms and a gym. Twenty percent of the SAC building will be affordable to very low-income seniors. The proposed unit mix is as follows:

Affordability	1 Bedroom	2 Bedrooms	Total
Very Low	17	12	29
Market-Rate	68	49	117
Manager	1	0	1
Total	86	61	147

Economics: The total SAC development cost is estimated at \$56,341,000. Meta has identified potential funding sources in the amount of \$49,409,000, leaving a gap of up to approximately \$6,932,000, or \$239,034 per affordable unit (see the attached Keyser Marston Associates (KMA) analysis for more detail). However, \$2,876,000 was already disbursed as part of the previous acquisition loan to Meta. In addition, \$2,127,000 is set aside during construction in a reserve fund required by the NIBP Program, and will be repaid to the LBHDC at completion of construction. After this repayment, the total gap and LBHDC loan will total \$4,805,000, or \$165,690 per affordable unit, as shown in the following chart.

Total Development Costs	\$56,341,000
Available Funding Sources (During Construction)	49,409,000
Gap / LBHDC Assistance (During Construction)	6,932,000
Less: LBHDC Acquisition Funds (Already Disbursed)	2,876,000
Additional LBHDC Funds During Construction	4,056,000
Total LBHDC Funds During Construction	6,932,000
Less: NIBP Reserve Funds to be Repaid to LBHDC at Conversion to Permanent Financing	2,127,000
Final LBHDC Loan Balance	\$ 4,805,000

Outstanding Issues: Listed below are outstanding issues that could either decrease or increase the financial gap.

1. High community and programming space costs - adjustments to the \$2,280,000 currently budgeted could decrease the gap by up to approximately \$304,000.
2. Deferred Developer Fee repayment expected after the 15-year Tax Credit compliance period could decrease the Tax Credit proceeds and increase the financial gap by \$40,000.
3. Meta has requested that most of the approximately \$26,000,000 awarded by HCD to the original project be allocated to the SAC, much of which goes toward the parking garage and off site improvements. HCD has yet to respond to Meta's request. As such, there is potential for a significant increase in the SAC financial gap if HCD does not agree with the developer's proposal.
4. HUD requires significant operating reserves. Meta has not provided the details of these reserve requirements, and they will need to be provided, reviewed, and approved by the LBHDC President.

Proposed Loan Terms: The loan will earn a 3% simple interest rate, and will be structured as a residual receipts note that will mature in 55 years.

PHASE IB – AFFORDABLE SENIOR BUILDING

Description: The 39-unit senior apartment building will be 100% affordable to very low-income seniors, except for the Manager's unit. The building will include a community room and residents in this development will have full access to the amenity package offered in the larger SAC development. The proposed unit mix is as follows:

Affordability	1 Bedroom	2 Bedrooms	Total
Very Low	30	8	38
Manager	0	1	1
Total	30	9	39

Economics: The total project development cost is estimated at \$14,360,000. The developer has identified potential funding sources in the amount of \$10,929,000, leaving a permanent gap of approximately \$3,431,000, or \$88,000 per unit. However, HCD funds in the amount of \$2,782,000 are not available during construction, which increases the gap during construction to \$6,213,000, or \$159,308 per unit. The LBHDC will need to contribute that amount during construction and be repaid \$2,782,000 at completion of construction. After this repayment, the total gap and LBHDC loan will total \$3,431,000, as shown in the following chart.

Total Development Costs	\$14,360,000
Available Funding Sources (During Construction)	8,147,000
Gap / LBHDC Assistance (During construction)	6,213,000
HCD Funds Paid to LBHDC at Conversion	2,782,000
Final LBHDC Loan Balance	\$ 3,431,000

Outstanding Issues: Listed below are outstanding issues that could either decrease or increase the financial gap.

1. High furniture, fixture and equipment (FF&E) allowance – adjustments to the \$250,000 currently budgeted could decrease the gap by up to \$150,000.
2. Deferred Developer Fee repayment expected after the 15-year Tax Credit compliance period could decrease the Tax Credit proceeds and increase the financial gap by \$268,000.
3. Further information is needed regarding the construction and permanent loan terms. Once official term sheets are received from the lenders, the financing costs are likely to be adjusted.

Proposed Loan Terms: The loan will earn a 3% simple interest rate, and will be structured as a residual receipts note that will mature in 55 years.

The KMA analysis also lists extraordinary architectural and engineering (A&E) costs for both Phase IA and IB as an outstanding issue. However, staff requested justification for the higher than typical costs and is satisfied with the response received. Reasons for the higher costs include a compressed time schedule to meet financing requirements, the

need to coordinate a seamless construction of Phase II (accounts for a 12% up charge), the mix of Type III over Type I construction versus the more conventional Type V over Type I, and the fact that two separate building submittal packages are required.

PROJECT SITE

The development site consists of 145,100 sq. ft. Meta acquired the majority of the site with \$24,400,000 in acquisition and predevelopment loan funds from Century Housing (Century). The remainder of the site was acquired through a loan of \$5,152,000 from the LBHDC – one parcel is located in what is now considered Phase I of the project site, and another parcel is located in what is considered Phase II of the site.

Because of the length of time it took Meta to develop the final concept for the site, coupled with the crisis in the housing and financial markets, Meta had to extend the terms of the Century loans and Meta was unable to make interest payments as originally required. To prevent Century from foreclosing on the property, Meta entered into a partnership agreement whereby Century is now the managing general partner. As general partner, Century will take a 25% developer fee in Phase I, which will be paid from Meta's share of residual receipts, in addition to an 8.5% interest on the Phase I loans. Century will take a 35% interest in Phase II, in addition to a 6% interest rate on the Phase II loans.

The LBHDC currently has a \$2,876,000 first trust deed on a 16,500 sq. ft. parcel in Phase I and a \$2,276,000 first trust deed on an 11,100 sq. ft. parcel in Phase II. Century's Board approved its partnership structure with Meta under the condition that the LBHDC subordinate its \$2,276,000 loan to the \$17,200,000 Century loan on Phase II. In return, the LBHDC loan will be secured with a second trust deed on the entire Phase II site.

TIMING CONSIDERATIONS

Meta 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 from the LBHDC to score well on the application. Moreover, Meta needs an approval from HCD to use most of the State funds awarded to the original mixed-use project for the SAC project alone. Meta believes that a funding commitment from LBHDC will help ensure this approval.

CONCLUSION

Staff recommends approval of a loan of up to \$13,145,000 during construction, and final loan of \$8,236,000 at conversion to permanent financing as shown in the following chart:

	Senior Artist Colony		100% Affordable		Combined	
	Construction	Permanent	Construction	Permanent	Construction	Permanent
Total Development Costs	\$56,341,000	\$56,341,000	\$14,360,000	\$14,360,000	\$70,701,000	\$70,701,000
Available Funding Sources	49,409,000	51,536,000	8,147,000	10,929,000	57,556,000	62,465,000
Gap	\$6,932,000	\$4,805,000	\$6,213,000	\$3,431,000	\$13,145,000	\$8,236,000

Staff also recommends subordination of the \$2,276,000 LBHDC loan to the \$17,200,000 Century loan on Phase II in exchange for a second trust deed on the entire Phase II site.

Staff's recommended actions are subject to the following conditions:

1. No LBHDC funds will be disbursed until all outstanding issues identified in this memo and the attached KMA Analysis are addressed to the satisfaction of the LBHDC President, including a written partnership agreement between Meta and Century Housing relating to the site;
2. No LBHDC funds will be disbursed until all firm funding commitments have been secured.
3. No disposition and/or development on the Phase II site will occur without the LBHDC President's approval.

Attachments:

- A – LBHDC Staff Reports
- B – KMA Analysis
- C – Site/Phasing Map

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