

## 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

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

**SUBJECT:** Amendment of the Disposition and Development Agreement and Approval of a Construction Loan with Brookfield Atlantic Avenue LLC for Coronado Townhomes (CD6)

### RECOMMENDATIONS

1. Approve an amendment to the Disposition and Development Agreement with Brookfield Atlantic Avenue LLC to provide additional gap financing in the amount of \$798,000 bringing the total gap assistance to \$7,808,000;
2. Approve a Construction Loan of up to \$7,730,778 to Brookfield Atlantic Avenue LLC for the construction of Coronado townhomes; and
3. Authorize the President or designee to negotiate and execute any and all documents necessary to implement an amendment to the Disposition and Development Agreement and Construction Loan Agreement.

### BACKGROUND

On November 21, 2007, the LBHDC authorized the President to enter into a Disposition and Development agreement with Brookfield Atlantic Avenue LLC (Brookfield) for the development of a 48-unit townhome development on LBHDC-owned land on Atlantic Avenue between 20<sup>th</sup> and Hill Streets. The approval included gap financing in the amount of \$7,010,000. A copy of the LBHDC staff report is attached for your information.

Following the Board's approval, Brookfield has been working diligently with staff to move the project to the construction phase. Thus far, the following milestones have been achieved:

- Acquisition of all parcels in the project site, including settlement and closure of two outstanding eminent domain cases

**MAKING  
AFFORDABLE  
HOUSING  
HAPPEN**

AGENDA ITEM NO. 4

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- Environmental abatement
- Project entitlement
- Coordination with neighboring property owners towards the resolution of encroachments onto LBHDC-owned properties
- Various community meetings
- Design and completion of working drawings
- Development of logo, community name and website
- Completion of sewer, water, storm drain, street, rough grading and precise grading plans; received plan check approval and ready to pull building permits
- Completion of architecture, mechanical, plumbing, electrical, and structural plans; received plan check approval and ready to pull building permits
- Filing of Notice of Intent with State Water Resources Control Board (permit for storm water collection during construction)
- Filing with Department of Real Estate to allow home sales and closings
- Accumulation of buyer interest list, currently 275 interested parties
- Preparation of home purchase documents including homeowner association (HOA) budgets, draft Covenants, Conditions and Restrictions (CC&Rs), purchase contract and draft silent second mortgage documents
- Establishment of Section 3 workforce hiring procedures
- Development of processes for outreach and sales, including continually staying updated on comparable sales, first mortgage lending guidelines, and establishment of programs available to potential buyers
- Currently bidding and contracting for all work scopes
- Continuously pursuing construction financing

If construction financing is secured this February, rough grading could begin in March 2010 and construction of the model building at Atlantic and 21<sup>st</sup> could start in April 2010.

#### **ADDITIONAL FINANCIAL GAP**

Since LBHDC's approval of the gap-financing amount in 2007 and staff's last review in 2008, the project's economics has changed, as shown below.

	2008	2010	Difference
Est. Dev. Cost	\$16,634,000	\$15,652,000	(\$ 982,000)
Est. Revenues	\$10,586,000	\$ 8,806,000	(\$1,780,000)
Gap	\$7,010,000	\$ 7,808,000	\$798,000

The total development costs for the project have decreased by approximately \$982,000, mostly due to lower construction costs and contingencies. However, this decrease in project costs is surpassed by an estimated \$1,780,000 decrease in sales revenues from the 2008 estimates. If you recall, the developer's revenues on the project are based on the maximum prices affordable to moderate-income households, and not on the units' market prices. Some of the assumptions used to arrive at the affordable prices in 2008 have since changed. For instance, FHA financing terms now require mortgage insurance and have higher first mortgage interest rates. In addition, property taxes must now be calculated based on the market rate prices instead of the affordable prices because buyers will be given an equity share/buyout option versus irrevocable covenants, as approved by the Board on May 20, 2009.

The changes in estimated development costs and projected revenues result in an additional gap of \$798,000, increasing the project gap to \$7,808,000. The relevant Keyser Marston Associates (KMA) budget tables are attached to provide more detailed information.

It is important to note that the additional gap of \$798,000 could still change up or down again as the project progresses because affordable housing prices change when income standards and interest rates change. The 2010 income limits will be published and available in the next couple of months, and staff is still investigating options for lending programs that are more favorable to the buyers. Both of these issues may impact the affordable housing price calculation and the project gap amount. Staff is committed to reducing the gap by utilizing the most efficient mortgage programs available, and will be working toward that goal as the project moves forward.

It should also be noted that based on a study of the market prices of the units, the total value of the LBHDC second trust deeds is projected to be \$8,690,000, which means that the LBHDC can potentially recoup more than \$7,808,000 from the project, without even counting equity share from future unit resales.

#### **REQUEST FOR CONSTRUCTION LOAN**

One of the requirements of the DDA is for Brookfield to provide evidence of construction financing before the site is conveyed to them. Due to the downturn in the real estate market coupled with the recent credit crisis, construction loans for ownership projects are just not available. Brookfield

has diligently pursued construction financing opportunities over the last two years from a number of lending institutions including East West Bank, Independence Bank, US Bank, Bank of America, Union Bank of California, and, most recently, Century Housing. Not one of these reputable lenders has been able to provide construction financing to Brookfield.

Due to the lack of construction financing available for new for-sale housing, Brookfield is requesting a loan from the LBHDC to begin construction. The total amount of the construction loan needed is \$7,730,778. However, the loan will be structured as a revolving loan or a line of credit so that the maximum outstanding balance will not exceed \$3,100,000 at any time during the course of construction. Funds will be released, repaid from unit sales, and released again as necessary up to the maximum loan amount. All funds will be repaid upon the sale of all the 48 units, with interest. If approved, a separate Construction Loan Agreement will be put into place for this loan.

Because Brookfield has exhausted all options and since the project has now been in process for more than seven years, staff recommends granting Brookfield's request for a construction loan in order to make this development a reality. Listed below are the proposed terms of the construction loan.

**Loan Amount:** Maximum of \$7,730,778 with a maximum outstanding balance of \$3,100,000 at any time during construction

**Term:** 24 months, with a 6-month option to extend

**Interest Rate:** 7.5%

**Security:** 1<sup>st</sup> Trust Deed on the 2.6 acre project site

**Guarantors:** The existing DDA includes a 100% Completion Guarantee

**Reporting Requirements:** Quarterly financial statements (balance sheet and income statement) within 45 days of fiscal quarter-end.

### **FISCAL IMPACT**

The original gap of \$7,010,000 is in LBHDC's current budget. There are sufficient funds in the Housing Development Fund to cover the additional financial gap of \$798,000 and the \$7,730,778 construction loan.

ET:PU:MS

#### **Attachments:**

1. November 21, 2007 Staff Report
2. KMA Tables