



**KEYSER MARSTON ASSOCIATES.**  
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

**MEMORANDUM**

ADVISORS IN:  
REAL ESTATE  
REDEVELOPMENT  
AFFORDABLE HOUSING  
ECONOMIC DEVELOPMENT

**To:** Patrick Ure, Housing Development Officer  
City of Long Beach

**From:** Julie Romey  
Tim Bretz

**cc:** Meggan Sorensen

**Date:** September 29, 2014

**Subject:** Immanuel Senior Housing: Revised Subsidy Layering Review

SAN FRANCISCO  
A. JERRY KEYSER  
TIMOTHY C. KELLY  
KATE EARLE FUNK  
DEBBIE M. KERN  
REED T. KAWAHARA  
DAVID DOEZEMA

LOS ANGELES  
KATHLEEN H. HEAD  
JAMES A. RABE  
GREGORY D. SOO-HOO  
KEVIN E. ENGSTROM  
JULIE L. ROMEY

SAN DIEGO  
PAUL C. MARRA

At your request, Keyser Marston Associates, Inc. (KMA) prepared a subsidy layering review for the 25-unit Immanuel Senior Housing Project (Project) proposed to be developed by Thomas Safran & Associates (Developer). The purpose of the KMA analysis is to quantify the maximum amount of HOME Program funds, in combination with other governmental assistance, which is necessary to provide the proposed affordable housing units. The HOME Program (HOME) funds are received by the City of Long Beach (City) from the United States Department of Housing and Urban Development (HUD).

**EXECUTIVE SUMMARY**

**Proposed Scope of Development**

The Developer is proposing to adaptively reuse an existing church building as a 25-unit apartment building. The apartments will consist solely of one-bedroom units, and will be restricted to very-low and low income senior citizen households. One unit will be reserved for an on-site manager. The Project is proposed to be developed on a 21,000 square foot site located at the northeast corner of East 3<sup>rd</sup> Street and North Obispo Avenue (Site).

## Financial Gap Analysis

Based on information provided by the Developer, KMA estimates the total development costs at \$11.68 million. It is currently anticipated that the Developer will receive funding for a portion of the Project costs from the following sources:

1. The Project was awarded Federal Low Income Housing Tax Credits (Tax Credits) by the California Tax Credit Allocation Committee (TCAC);
2. Proposition 1C Infill Infrastructure Grant (Prop 1C) funds awarded by the California Department of Housing and Community Development (HCD);
3. A loan awarded by the Los Angeles County Community Development Commission (LACDC);
4. A loan awarded by the Federal Home Loan Bank of San Francisco's Affordable Housing Program (AHP); and
5. Deferred Developer Fees.

In addition, the Project will receive an annual operating subsidy from the Los Angeles County Department of Health Services (DHS). The operating subsidy is anticipated to be awarded as a 15-year commitment, with an administrative renewal every five years. However, there is no guarantee that the administrative renewal will be approved every five years, or that the initial commitment will be extended after 15 years.

The KMA analysis results in a financial gap of \$1.63 million, which is \$23,000 less than the Developer's \$1.65 million financial assistance request. This differential is attributed to a difference in total development cost estimates. However, it can be considered inconsequential for a project of this development scope. It is anticipated that the City's financial contribution will consist solely of HOME funds.

## HOME Layering Analysis

The results of the HOME layering analysis can be summarized as follows:

1. The KMA HOME layering analysis demonstrates that the proposed \$1.65 million in HOME Program assistance is necessary to provide the proposed affordable housing units. This request assumes the following:
  - a. The City will provide 100% of the assistance at construction loan closing;

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- b. The City assistance will be structured as a residual receipts loan with a 1% simple interest rate;
  - c. The Project received an allocation of the competitively awarded 9% Tax Credits;
  - d. The Project received a loan of Prop 1C funds from HCD;
  - e. The Projected received a loan from LACDC; and
  - f. The Project received competitively awarded AHP funds.
2. Assuming that \$1.65 million in HOME funds assistance is provided, the HOME Program regulations require 11 units to be designated as HOME units.
  3. The HOME Program regulations impose Davis Bacon wage requirements on projects that include 12 or more designated HOME units. Given that only 11 units must be designated as HOME units, Davis Bacon wage standards are not applicable to the Project per the HOME program. However, the Developer has stated that the development costs include an allowance for State of California prevailing wages. If the City restricts more than 11 units as HOME units, the Project must comply with Davis Bacon wage requirements.
  4. The HOME Program regulations require that at least 20% of the units assisted with HOME funds be affordable to very-low income households. The City must restrict at least three units as Low HOME units if 11 HOME-designated units are included in the Project. It is KMA's understanding that if 24 units are designated as HOME units, five units must be restricted as Low HOME units. This should be verified with the City's legal counsel.

## **PROJECT DESCRIPTION**

The proposed scope of development can be described as follows:

1. The Site is comprised of approximately 21,000 square feet of land area.
2. The Project will adaptively reuse an existing church building by converting the space into apartments for senior citizen households.
3. The Project is proposed to include 25 one-bedroom apartment units. The average size of the units is 648 square feet.
4. The 25-unit Project represents a density of 52 units per acre.

5. The gross building area (GBA) for the project is 31,682 square feet, which includes:
  - a. Gross residential area totaling 16,210 square feet;
  - b. Community room space totaling 5,000 square feet; and
  - c. Circulation and common area space totaling 10,472 square feet.
  
6. The Developer is proposing to allocate the units to the following income categories as defined by HUD:

Very-Low Income Units	17
Low Income Units	7
Unrestricted Manager's Unit	1
<b>Total Units</b>	<b>25</b>

7. The Developer is proposing to provide the following social services for a minimum of ten years:
  - a. Adult Education; and
  - b. Health & Wellness or Skill Building.

**FINANCIAL GAP ANALYSIS**

HOME funds can only be used to assist a project if a layering analysis validates that the assistance amount is required to make the project financially feasible. The City engaged KMA to quantify the financial gap associated with providing affordable housing in the Project. KMA prepared a pro forma analysis to assist in evaluating the Developer's proposal. The analysis is located at the end of this memorandum, and is organized as follows:

Table 1:	Estimated Development Costs
Table 2:	Stabilized Net Operating Income
Table 3:	Financial Gap Calculation
Table 4:	HOME Unit Designation

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### **Estimated Development Costs (Table 1)**

KMA reviewed the Developer's development cost estimates, and then independently prepared a pro forma analysis for the Project. The resulting development costs are estimated as follows:

#### ***Property Assemblage Costs***

The Site consists of the following two adjacent parcels:

##### **3215 East 3<sup>rd</sup> Street**

The Developer purchased the parcel located at 3215 East 3<sup>rd</sup> Street (3<sup>rd</sup> Street Parcel) in June 2011 for \$1.15 million. This parcel contains an existing church building, which will be converted into apartment units. The parcel contains 15,052 square feet of land area. Based on an appraisal report prepared by Stringer Appraisals and dated July 20, 2012, the market value of the 3<sup>rd</sup> Street Parcel was estimated at \$1,150,000, or \$76 per square foot of land area. As such, the acquisition cost for the 3<sup>rd</sup> Street Parcel is set at \$1.15 million. A more recent appraisal was not provided for review.

##### **304 North Obispo**

The Developer entered into a purchase and sale agreement to acquire the parcel located at 304 North Obispo (Obispo Parcel), which is directly north of the 3<sup>rd</sup> Street Parcel. The Obispo Parcel contains a single-family home, which will be demolished. The parcel contains 5,937 square feet of land area, and the purchase price was originally set at \$590,000 or \$99 per square foot of land area. However, the Developer intends to acquire the Obispo Parcel at construction closing. Given the length of the pre-development process, the Developer has had to pay the property owner to extend the escrow period. The Developer paid the owner \$15,000 for the first option to extend, and then \$10,000 each for two more options to extend. As such, the total purchase price of the Obispo Parcel, including the options to extend, is currently set at \$625,000. The most recent option to extend lasts until December 2014, which should be sufficient time to complete construction closing.

An appraisal for the Obispo Parcel was prepared by Douglass & Associates on December 13, 2012, which estimated the fair market value of the Obispo Parcel at \$560,000. Thus, the original proposed purchase price of \$590,000 was \$30,000, or 5%, more than the fair market value. The subsequent options to extend the escrow period added an additional \$25,000 to the acquisition costs. However, the Obispo Parcel is necessary for the feasibility of the Project, and as such, the purchase of the parcel above fair market value, inclusive of the options to extend, is justified.

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### Total Acquisition Costs

As such, the total acquisition costs for the Project are estimated at \$1.78 million, or \$85 per square foot of land area. KMA recommends that any HOME funds utilized for acquisition purposes be limited to the total fair market value of the two parcels, rather than the total purchase prices.

### ***Direct Costs***

The direct costs assume that the Project will be subject to State of California prevailing wage requirements. The direct costs applied in the analysis can be summarized as follows:

1. The Developer provided a \$156,000 allowance for demolition of the existing residential unit on the Obispo Parcel and internal demolition for the adaptive reuse.
2. The site improvement costs are estimated at \$17 per square foot of land area, or \$348,000.
3. The Developer estimates the residential building costs at approximately \$127 per square foot of GBA, or \$4.03 million. Given the complexity of adaptive reuse projects, KMA recommends that the City require the Developer to obtain at least three construction bids to verify the cost estimates.
4. A \$100,000 allowance for furnishings, fixtures and equipment is provided.
5. A 14% allowance for contractor fees and general requirements.
6. An allowance for general liability insurance and construction bonds at 2% of construction costs is provided.
7. A direct cost contingency allowance equal to 15% of other direct costs is provided.

KMA and the Developer estimate the total direct costs at \$6.14 million, which equates to \$245,800 per unit.

### ***Indirect Costs***

KMA utilized the following assumptions for estimating the indirect costs:

1. The architecture, engineering and consulting costs are estimated at 12% of direct costs.

2. The Developer estimated the public permits and fees costs at \$409,000, or \$16,366 per unit. City staff should verify the accuracy of this estimate.
3. The taxes, legal and accounting costs are estimated at 3% of direct costs, or \$184,000.
4. The insurance costs are estimated at \$75,000, or \$3,000 per unit
5. A \$136,000 allowance for marketing and leasing costs is provided.
6. The Developer included a \$1.15 million developer fee, which is the maximum amount allowed by TCAC.
7. An indirect cost contingency allowance equal to 5% of other indirect costs is provided.

KMA estimates the total indirect costs at \$2.82 million. In comparison, the Developer estimates the total indirect costs at \$2.84 million, which represents a \$21,000 differential. This is primarily caused by a difference in cost estimates for architecture, engineering and consulting costs, and taxes, legal and accounting costs.

### ***Financing Costs***

The financing costs for the Project are estimated as follows:

1. KMA included a \$353,000 allowance for acquisition/predevelopment loan interest. The Developer stated that the acquisition/predevelopment loan is set at \$1,862,500 and has a 6.5% interest rate, which is to be paid monthly. KMA assumes that the acquisition/predevelopment loan will have a term of 35 months.
2. The construction and absorption period interest costs are estimated at \$361,000 for a \$5.24 million construction loan. These costs are based on the following assumptions:
  - a. KMA utilized the Developer's construction loan amount;
  - b. The construction period interest costs are based on a 6.0% interest rate, an 18-month construction period, and a 60% average outstanding balance; and
  - c. The absorption period interest costs are based on a three-month absorption period with a 100% average outstanding loan balance.

3. The financing fees are set at 2.0 points for the acquisition and construction loans. This equates to \$142,000.
4. The capitalized operating reserve is estimated at \$49,000. This allowance is equal to three months of operating expenses and debt service payments.
5. The Tax Credit fees are estimated at \$36,000 based on the following assumptions:
  - a. A \$2,000 application fee;
  - b. A \$410 per unit monitoring fee; and
  - c. Four percent (4%) of gross Tax Credit proceeds for one year.

KMA estimates the total financing costs at \$941,000. In comparison, the Developer estimates the total financing costs at \$944,000. This represents a \$3,000 differential.

#### ***Total Development Costs***

As shown in Table 1, KMA estimates the total development costs at \$11.68 million, which is \$23,000 less than the Developer's \$11.70 million estimate. This represents a less than 1% differential, and is considered inconsequential for a Project of the proposed scope. In addition, KMA assumes that since the Project has received an award of Tax Credits, TCAC has reviewed and approved the Developer's development cost estimates.

#### **Stabilized Net Operating Income (Table 2)**

The Project's funding sources include Tax Credits, Prop 1C funds, LACDC funds, AHP funds, and HOME funds. Each of these funding sources imposes specific income and affordability standards. To that end, the Project's income and affordability standards must comport with the more stringent of the following income and affordability standards:

1. AHP income and affordability restrictions necessary to make the Project competitive for AHP's application process.
2. LACDC income and affordability restrictions required to obtain the DHS operating subsidy.
3. Income Restrictions: The Tax Credit Program, Prop 1C Program and the HOME Program apply the household income restrictions defined under United States Code, Title 26, Section 142(d)(2)(B).

4. Affordability Restrictions: The rents applied to the units must reflect the more stringent of:
- a. The rents required for the units receiving the DHS operating subsidy;
  - b. The Tax Credit rents published annually by TCAC; and
  - c. Low and High HOME rents published annually by HUD.

***Net Operating Income***

The rents applied to all of the units must reflect the most restrictive requirements imposed by the proposed funding sources. Based on 2014 income information distributed by HUD, TCAC, LACDC, and the HOME Program, the rents, net the appropriate utility allowance, are estimated as follows:<sup>1</sup>

Income Restriction	TCAC Rents	LACDC Rents	HOME Rents	Applicable Rents
Low HOME/LACDC/TCAC @ 30% Median	\$418	\$220	\$751	\$220
Low HOME/LACDC/TCAC @ 30% Median	\$571	\$220	\$751	\$220
Low HOME/LACDC/TCAC @ 45% Median	\$647	\$220	\$751	\$220
Low HOME/TCAC @ 45% Median	\$647	NA	\$751	\$647
Low HOME/TCAC @ 50% Median	\$724	NA	\$751	\$724
High HOME/TCAC @ 60% Median	\$877	NA	\$968	\$877

KMA estimates the Project's gross rental income at \$228,200, which includes the following:

- 1. An annual DHS operating subsidy estimated at \$79,000 in Year 1; and
- 2. Laundry and miscellaneous income averaging \$7 per unit per month.

After applying a 5% vacancy and collection allowance, KMA estimates the resulting effective gross income (EGI) at \$217,000.

The operating expenses are estimated as follows:

- 1. The Developer estimates the general operating expenses at approximately \$6,929 per unit per year. The Developer stated that the general operating expenses were higher than typical due to operating expense requirements imposed by LACDC and the DHS operating subsidy.

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<sup>1</sup> The monthly utility allowance for one-bedroom units is estimated at \$40.

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2. KMA assumes the Developer will apply for the property tax abatement that is accorded to non-profit housing organizations that own income-restricted apartments. As such, the property tax liability is limited to assessment overrides, which are estimated by the Developer at \$2,500 per year.
3. The City imposes a \$125 per unit annual affordable housing monitoring fee, which equates to \$3,125 per year.
4. The Developer estimates the social services costs at \$6,500 per year.
5. The annual capital replacement reserve deposit is estimated at \$350 per unit per year.

As shown in Table 2, the residential operating expenses are estimated to total \$194,100, or approximately \$7,764 per unit. When the Project's EGI is reduced by the operating expenses, KMA estimates the stabilized net operating income (NOI) at \$22,900, which is equal to the Developer's estimate.

### **Financial Gap Calculation (Table 3)**

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:

#### ***Total Available Funding Sources***

##### Tax Credit Proceeds

##### *Tax Credit Basis*

It can be assumed that the Project's eligible Tax Credit basis is equal to the lesser of the depreciable costs for the 25 Tax Credit units, or the basis limits established by TCAC. KMA calculated the eligible Tax Credit basis as follows:

1. The Project's depreciable costs are estimated at \$8.79 million, and the threshold basis limits applied by TCAC equal \$6.74 million.
2. The threshold basis limits are less than the depreciable costs. As such, the Project's eligible Tax Credit basis is set at \$6.74 million.
3. To further increase the competitiveness of the Project's Tax Credit application, the Developer can voluntarily reduce the Project's requested eligible Tax Credit basis. As such, the Developer voluntarily reduced the Project's eligible basis by

approximately \$572,300, or 8%. The Developer's Tax Credit application was awarded Tax Credits in the first Tax Credit round of 2014.

#### *Tax Credit Proceeds*

KMA estimates the net Tax Credit proceeds as follows:

1. KMA calculated the gross Tax Credit amount supported by the Project at \$6.18 million, based on the following assumptions:
  - a. The Project is located in a designated "Difficult to Developer" census tract. This allows the requested eligible basis to be increased by 30%.
  - b. The Developer estimates the annual Tax Credit rate at 7.70% for new construction projects.<sup>2</sup> This rate is applied over the 10-year Tax Credit period.
  - c. 100% of the Project's building area is located in units that qualify for Tax Credits.
2. The net syndication value supported by the Tax Credit is ultimately determined based on competitive market conditions and on the timing of the disbursements. Based on currently available information, the Developer estimates the proceeds at \$1.10 per gross Tax Credit dollar.

Based on the preceding calculations, KMA estimates the net Tax Credit equity at \$6.79 million. This amount is equal to the Developer's estimate.

#### Prop 1C Funds

The Developer received \$988,000 in Prop 1C funds.

#### LACDC Funds

The Developer received \$1.47 million in LACDC funds.

#### AHP Loan

The Developer received a \$360,000 loan of AHP funds.

#### Deferred Developer Fee

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<sup>2</sup> Based on discussions with TCAC staff, TCAC considers adaptive reuse projects as new construction projects.

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The Developer intends to permanently defer \$436,000, or 38%, of the total \$1.15 million Developer Fee.

### ***Total Available Funding Sources***

As shown in Table 3, KMA estimates the total outside available funding sources at \$10.05 million, which is equal to the Developer's estimate.

It is important to understand that the volatility in the financial markets makes it difficult to accurately predict the underwriting standards that will ultimately be applied to the Tax Credits. Thus, it is possible that the proceeds will vary from the amounts estimated in this analysis. If the amount of available funding sources changes substantially, it may be necessary to update the KMA analysis.

### ***Financial Gap Calculation***

Based on the assumptions outlined in this analysis, KMA calculates the financial gap as follows:

Total Development Costs	\$11,677,000
(Less) Total Available Funding Sources	(10,050,000)
Financial Gap	\$1,627,000
Per Unit	\$65,100

Based on the results of the preceding financial analysis, it is the KMA conclusion that the Project exhibits a \$1.63 million financial gap. In comparison, the Developer has requested \$1.65 million in HOME funds from the City. This represents a \$23,000 differential, which can be considered inconsequential for a project of this scope.

## **HOME PROGRAM REQUIREMENTS**

The proposed assistance package consists of a contribution of HOME funds. Thus, the Project must comply with the HOME Program layering requirements and subsidy limits.

### **Layering Requirements**

HOME Program 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 analysis, it is the KMA conclusion that the Project supports the Developer's request for \$1.65 million in local public assistance. As such, the proposed package complies with the HOME layering requirement.

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## **HOME Unit Designation**

HUD establishes two tests for quantifying the number of designated HOME units that must be included in the Project. 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 HOME Program assistance. The calculation for the Project is:

1. \$1.65 million in HOME Program assistance is assumed to be provided.
2. KMA estimated the cost for the Project at \$11.68 million.
3. Based on the preceding assumptions, the HOME Program assistance is equal to 14% of the Project costs.
4. Under the Development Cost Test, 14% of the 25 units must be designated as HOME units. This equates to four units.

### ***Subsidy Limit Test***

HUD establishes subsidy limit tests based on the number of bedrooms included in the HOME-assisted units. The 2014 subsidy limit for one-bedroom units in Los Angeles County is \$152,251.

Based on \$1.65 million in HOME Program assistance and the identified subsidy limits, the Project must include at least 11 HOME-designated units.

### ***Designated HOME Units***

The HOME units allocation tests generate an obligation to provide four units and 11 units, respectively. To adhere to both HOME unit designation requirements, it will be necessary to designate 11 units as HOME units.

The HOME Program also requires that at least 20% of the units assisted with HOME funds be affordable to very-low income households, and the balance of the units be reserved for low income households. The Project includes 19 units that comply with the HUD very-low income standard and five units that comply with the HUD low income standard. Thus, it is clear that the Project can fulfill the income targeting requirements imposed by HUD.

## CASH FLOW ISSUES

The inclusion of the LACDC funds and the corresponding DHS operating subsidy requires 12 of the units to be rented at approximately 30% of the Supplemental Security Income (SSI) payment amounts published by the Social Security Administration. Furthermore, the DHS operating subsidy is approved as a 15-year commitment that is administratively renewed every five years. However, there is no guarantee that there will be sufficient funds to renew the operating subsidy every five years during the 15-year term.

If the DHS operating subsidy is not renewed, the Project's cash flow would trend negative immediately, which would jeopardize the viability of the Project. To maintain a viable Project under these circumstances, the Developer stated that TCAC will allow the incomes and corresponding rents to increase to 60% of the TCAC median income. This will increase the Project's available cash flow, but decrease the affordability of the Project.

Given the strong likelihood of this situation, KMA recommends that the City structure the affordability of the Project to allow for the majority of the income levels to increase to 60% of the TCAC median income. However, it is important to note that 20% of the HOME-designated units must continue to be restricted as Low HOME units. Low HOME units typically correspond to 50% of the TCAC median income.

## CONCLUSIONS / RECOMMENDATIONS

The following summarizes the findings of the KMA analysis:

1. The Developer's request for \$1.65 million in financial assistance from the City is warranted by the Project's economic characteristics. This request assumes that the City assistance will be structured as a residual receipts loan with a 1% simple interest rate.
2. KMA recommends that if any HOME funds are used for acquisition costs, the amount be limited to the fair market value of the Site.
3. The Project complies with both layering tests imposed by HUD.
4. To comply with the subsidy limits imposed by HUD, the City must designate at least 11 units as HOME units. However, the following issues should be considered:
  - a. If 11 units are designated as HOME units, at least three units must be restricted as Low HOME units. Based on KMA's understanding, if 24

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units are designated as HOME units, at least five units must be designated as Low HOME units. The City should consult with legal counsel regarding this point if electing to restrict 24 units as HOME-designated units.

- b. If 12 or more units are designated as HOME units, the Project must comply with Davis Bacon wage requirements. The City should discuss this point with legal counsel and the Developer if electing to restrict 24 units as HOME-designated units.
5. The Project includes an operating subsidy provided by DHS. However, if the operating subsidy were to end, the Project's cash flow would trend negative. As such, KMA recommends that the City require the Developer to apply 75% of any cost savings or increases in Tax Credit equity to fund an additional City-controlled operating reserve. This operating reserve would be utilized for City-approved operating subsidies in the event the Project's cash flow is negative due to the elimination of the DHS operating subsidy.

TABLE 1

**ESTIMATED DEVELOPMENT COSTS  
IMMANUEL SENIOR HOUSING  
LONG BEACH, CALIFORNIA**

<b>I. Property Acquisition Costs</b>	1	20,989	Sf Land	\$85 /Sf Land		<b>\$1,775,000</b>
<b>II. Direct Costs</b>	2					
Demolition						\$156,000
On-site Improvements		20,989	Sf Land	\$17 /Sf Land		348,000
Residential Building Costs		31,682	Sf GBA	\$127 /Sf GBA		4,030,000
Furnishings, Fixtures & Equipment						100,000
Contractor Fees / General Requirements		14%	Construction Costs			635,000
Construction Bonds		2%	Construction Costs			87,000
Contingency Allowance		15%	Other Direct Costs			788,000
<b>Total Direct Costs</b>		<b>25</b>	<b>Units</b>	<b>\$245,800 /Unit</b>		<b>\$6,144,000</b>
<b>III. Indirect Costs</b>						
Architecture, Engineering & Consulting		12%	Direct Costs			\$737,000
Permits & Fees	3	25	Units	\$16,366 /Unit		409,000
Taxes, Legal & Acctg		3.0%	Direct Costs			184,000
Insurance		25	Units	\$3,000 /Unit		75,000
Marketing & Leasing		25	Units	\$5,440 /Unit		136,000
Developer Fee	4	15%	of Eligible Basis			1,146,000
Contingency Allowance		5%	Other Indirects			130,000
<b>Total Indirect Costs</b>						<b>\$2,817,000</b>
<b>IV. Financing Costs</b>						
Acquisition Loan	5	\$1,862,500	Loan Amount	6.50% Interest		\$353,000
Interest During Construction	6	\$5,235,000	Loan Amount	6.00% Interest		361,000
Financing Fees						
Acquisition Loan		\$1,862,500	Loan Amount	2.00 Points		37,000
Construction Loan		\$5,235,000	Loan Amount	2.00 Points		105,000
Operating Reserve		3	Months Op Exp and Debt Service Pmts			49,000
TCAC Fees	7					36,000
<b>Total Financing Costs</b>						<b>\$941,000</b>
<b>V. Total Construction Costs</b>		<b>25</b>	<b>Units</b>	<b>\$396,080 /Unit</b>		<b>\$9,902,000</b>
<b>Total Development Costs</b>		<b>25</b>	<b>Units</b>	<b>\$467,080 /Unit</b>		<b>\$11,677,000</b>

<sup>1</sup> Based on Developer estimate. An appraisal for the 3rd Street Parcel prepared by Stringer Appraisals on July 20, 2012 was provided for review. An appraisal was not provided for the Obispo Parcel.

<sup>2</sup> Based on Developer's estimate. Estimates assume prevailing wage requirements will be imposed on the Project. KMA assumes the development costs have been reviewed and approved by TCAC.

<sup>3</sup> Based on Developer's estimate. The estimate should be verified by the City staff.

<sup>4</sup> Based on the maximum amount allowed by TCAC.

<sup>5</sup> Based on the loan terms provided by the Developer.

<sup>6</sup> Based on Developer's construction loan amount. Assumes an 18-month construction period with a 60% average outstanding balance; and a 3-month absorption period with a 100% average outstanding balance.

<sup>7</sup> Includes \$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  
IMMANUEL SENIOR HOUSING  
LONG BEACH, CALIFORNIA**

<b>I. <u>Gross Residential Income</u></b>	<sup>1</sup>			
Manager's Unit	<sup>2</sup>	1 Unit	\$0 /Unit/Month	\$0
<b><u>1-Bedroom Units @ (648-Sf)</u></b>				
LACDC/Low HOME/Tax Credit @ 30% Median		4 Units	\$220 /Unit/Month	10,600
LACDC/Low HOME/Tax Credit @ 40% Median		4 Units	\$220 /Unit/Month	10,600
LACDC/Low HOME/Tax Credit @ 45% Median		4 Units	\$220 /Unit/Month	10,600
Low HOME/Tax Credit @ 45% Median		2 Units	\$647 /Unit/Month	15,500
Low HOME/Tax Credit @ 50% Median		3 Units	\$724 /Unit/Month	26,100
High HOME/Tax Credit @ 60% Median		7 Units	\$877 /Unit/Month	73,700
<b>Gross Residential Income</b>		25 Units		\$147,100
DHS Operating Subsidy				79,000
Laundry/Miscellaneous Income		25 Units	\$7 /Unit/Month	2,100
<b>Gross Income</b>				\$228,200
(Less) Vacancy & Collection Allowance		7.5% Gross Income		(11,200)
<b>Residential Effective Gross Income</b>				<b>\$217,000</b>
<b>II. <u>Residential Operating Expenses</u></b>				
General Operating Expenses		25 Units	\$6,929 /Unit	\$173,200
Property Taxes	<sup>3</sup>	25 Units	\$100 /Unit	2,500
Affordable Housing Monitoring Fee		25 Units	\$125 /Unit	3,100
Services		25 Units	\$260 /Unit	6,500
Replacement Reserve		25 Units	\$350 /Unit	8,800
<b>Total Operating Expenses</b>		25 Units	<b>\$7,764 /Unit</b>	<b>\$194,100</b>
<b>III. <u>Residential Net Operating Income</u></b>				<b>\$22,900</b>

<sup>1</sup> Based on Los Angeles County 2014 incomes distributed by HUD. The rents are based on the rents published in 2014 by TCAC and the HOME Program. Utility allowances are estimated at \$40/month for a one-bedroom unit.

<sup>2</sup> The manager's unit is an unrestricted unit.

<sup>3</sup> Assumes the Developer will receive the property tax abatement accorded to non-profit housing organizations which develop income-restricted apartments.

TABLE 3

**FINANCIAL GAP CALCULATION  
IMMANUEL SENIOR HOUSING  
LONG BEACH, CALIFORNIA**

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**I. Available Funding Sources**

<b>Tax Credit Equity</b>	<sup>1</sup>		
Gross Tax Credit Value	-	\$6,175,000	
Syndication Rate		\$1.10 /Tax Credit Dollar	
<b>Net Tax Credit Equity</b>			<b>\$6,792,000</b>
<b>Prop 1C Infill</b>	<sup>2</sup>		<b>\$988,000</b>
<b>LACDC</b>	<sup>2</sup>		<b>\$1,474,000</b>
<b>AHP</b>	<sup>2</sup>		<b>\$360,000</b>
<b>Deferred Developer Fee</b>	<sup>2</sup>	<b>38% Total Developer Fee</b>	<b>\$436,000</b>
<b>Total Available Funding Sources</b>			<b>\$10,050,000</b>

**II. Financial Gap Calculation**

Total Development Costs	\$11,677,000
(Less) Total Available Funding Sources	(10,050,000)

<b>Financial Gap</b>	<b>25 Units</b>	<b>\$65,100 /Unit</b>	<b>\$1,627,000</b>
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<sup>1</sup> The Project was awarded Tax Credits in June 2014. Assumes a \$6.2 million requested eligible basis, plus a 130% difficult-to-develop premium, a 7.70% Tax Credit rate and an applicable fraction of 100%. The Developer is voluntarily excluding \$572,000 from the Project's allowable eligible basis to maximize the tiebreaker score.

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

TABLE 4

HOME UNIT DESIGNATION  
IMMANUEL SENIOR HOUSING  
LONG BEACH, CALIFORNIA

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<b>I. <u>Minimum Designated HOME Units</u></b>		
Total HOME Funds Available		\$1,650,000
Total Residential Costs		\$11,677,000
HOME Funds as a % of Residential Costs		14.1%
Number of Units		25
<b>Total HOME Units per Development Costs</b>		<b>4</b>
<b>II. <u>Minimum Designated HOME Units per Subsidy Amount</u></b>		
Total HOME Funds Available		\$1,650,000
One-Bedroom HOME Subsidy Limit		<u>\$152,251</u>
<b>Total HOME Units per Subsidy Amount</b>		<b>11</b>
<b>III. <u>Minimum Number of HOME Units Required</u></b>		<b>11</b>