



Housing Commission Report

Housing Commission Meeting: January 17, 2019

Agenda Item: 5-B

To: Housing Commission

From: Barbara Collins, Housing Manager

Subject: Proposed Housing Trust Fund Loan to Community Corporation of Santa Monica for the Acquisition and Predevelopment of the Property Located at 1834 - 1848 14th Street

Recommendation

Staff recommends that the Housing Commission review and provide input on the overall loan request and associated proposed development of 55 residences, including a few specific affordable housing policy issues discussed in the report regarding developer fees, local priority, and affordable housing dispersal.

Executive Summary

Community Corporation of Santa Monica has requested a housing trust fund loan for property acquisition and predevelopment of 55 affordable housing residences at 1834, 1840, 1844 and 1848 14th Street. The requested loan amount, loan terms, and proposed affordable housing are consistent with the HTF Guidelines, with the exception of the number of proposed residences. City Council approval is required for loans involving proposed developments that exceed 50 residences.

Discussion

Community Corporation of Santa Monica (CCSM) is a local nonprofit organization founded in 1982 which develops and manages affordable housing in the City of Santa Monica. CCSM currently owns and operates 89 affordable housing properties totaling 1,719 residences, all of which are in the City of Santa Monica.

CCSM has entered into a purchase agreement and opened escrow for the 1834 - 1848 14th Street properties (Property). The existing four adjacent properties comprise four

buildings used for commercial uses on approximately 30,000 square feet of land. The Property currently has a storefront pet food store and warehouse, grooming facility, and small (trailer) leasing office. The Property is zoned Neighborhood Commercial (NC) District, which provides for a scale and character of development that is pedestrian-oriented. This zoning district allows residential uses above the ground floor with active, local-serving retail and service commercial uses on the ground floor.

CCSM has applied to the City for a housing trust fund loan for the acquisition and predevelopment of the Property, as a site for affordable housing. Staff has evaluated the loan request and conceptual affordable housing development, which is discussed in more detail below.

Proposed Affordable Housing

CCSM proposes to acquire the Property and begin the predevelopment process with the intention of developing 55 residences for low-income households, consisting of 27 one-bedroom residences, 14 two-bedroom residences and 14 three-bedroom residences. The proposed development would target small and large families earning between 30 percent to 80 percent of the area median income. The proposed per-residence loan amount is below the loan limits established in the HTF Guidelines.

The proposed development would maximize the allowable building envelope, including 55 residences and 3,500 square foot of local-serving commercial space (44,615 gross building square feet). The zoning district requires a development of more than 50 apartments to obtain a Development Review Permit.

Proposed Rent and Unit Mix

The proposed rent levels for this development would comply within the Housing Trust Fund Guidelines affordability requirements and goals. The Developer is proposing that 51 residences (93%) be restricted for households at 30% to 60% of the area median income (AMI) and 4 residences, including one manager's residence, will be restricted at 80% AMI. Below is the proposed rent and unit mix for the development:

Unit Type	% of AMI					Number of Affordable Units
	30%	40%	50%	60%	80%	
One-Bedroom	3	4	12	8	-	27
Two-Bedroom <i>(includes one manager's unit at 80% AMI)</i>	2	5	4	1	2	14
Three-Bedroom	2	2	1	7	2	14
<i>Total</i>	<i>7</i>	<i>11</i>	<i>17</i>	<i>16</i>	<i>4</i>	<i>55</i>

Proposed Sources and Uses

Currently, CCSM is requesting an acquisition and predevelopment loan of \$14,112,228 to acquire the Property and start the predevelopment process, which includes community meetings for design input, securing land use entitlements and the preparation of construction drawings, competing for Low-Income Housing Tax Credits, and obtaining bank financing. The proposed development is estimated to need a total City loan of \$15,455,221 (inclusive of the initial \$14,112,228) and would subsequently apply for the additional amount prior to the start of construction. CCSM is proposing to leverage the City's loan with \$23,747,625 of tax credit equity, a permanent (long-term) bank loan of \$1,531,105, and a proposed capitalized lease payment of \$1,785,000 for the proposed replacement of CCSM's maintenance facility from an adjacent site to the Property. At \$281,004 per residence of City subsidy, the request falls below the 2018/2019 Housing Trust Fund loan limits. The following table illustrates the anticipated financing for the proposed affordable housing development.

USES	Acquisition & Predevelop.	Construction	Permanent	Per Unit	Per Bedroom
Acquisition Costs	\$11,970,877	\$11,970,877	\$11,970,877	\$217,652	\$123,411
Construction Costs	--	\$23,309,093	\$23,309,093	\$423,802	\$240,300
Soft Costs	\$2,141,351	\$7,488,387	\$7,488,387	\$136,153	\$77,200
Deferred Costs	--	(\$291,372)	--	--	--
Developer Fee – Permanent Portion	--	(\$249,406)	--	--	--
Total Uses	\$14,112,228	\$42,227,579	\$42,768,357	\$777,607	\$440,911
SOURCES	Acquisition & Predevelop.	Construction	Permanent	Per Unit	Per Bedroom
Bank Loan	--	\$24,397,596	\$1,531,105	\$27,838	\$15,785
City of Santa Monica	\$14,112,228	\$15,455,221	\$15,455,221	\$281,004	\$159,332
Tax Credit Equity	--	\$2,374,763	\$23,747,625	\$431,775	\$244,821
CCSM General Partner Contribution <i>(Upfront Capitalized Lease Payment on Commercial Space for 17 years)</i>	--	--	\$1,785,000	n/a	n/a
Deferred Developer Fee	--	--	\$249,406	\$4,535	\$2,571
Total Sources	\$14,112,228	\$42,227,580	\$42,768,357	\$777,607	\$440,911

Construction Costs

Presently, at this conceptual stage, total hard costs for the proposed development including contingency are projected at \$423,802 per residence for a total of \$23,309,093. The total estimated hard costs include the required 61 parking spaces in one level of subterranean parking and 3,500 square foot of commercial space (as shown below in the table):

Estimated Hard Costs	Total	Per Residences
Parking Hard Costs <i>(49 parking spaces and 12 commercial parking spaces)</i>	\$4,677,031	\$85,037
Commercial Hard Costs <i>(CCSM's proposed maintenance facility)</i>	\$816,955	n/a
Residential Hard Costs	\$17,815,107	\$323,911
Total Hard Costs	\$23,309,093	\$408,948

Although these total estimated residential and parking hard costs are slightly higher compared to two recently City-funded new construction developments (1820 14th Street at \$364,125 per residence, 1445 & 1453 10th Street at \$366,177 per residence), the total estimated hard costs are lower than the recently City-funded proposed development at 2120 Lincoln Blvd estimated at \$424,297 per residence. Overall, the estimated residential hard costs are reasonable.

Capitalized Lease Payments for Replacement Maintenance Facility

CCSM proposes to utilize 3,500 square feet for commercial space to replace its maintenance facility (currently at the adjacent 1820 14th Street site, which will be demolished as part of a new affordable housing development). To finance the construction of this component of the development, CCSM is proposing a capitalized lease payment of \$1,785,000 for the first 17 years. After Year 17, CCSM proposes an annual lease payment based on the market lease rate for commercial space.

Merits of The Application

Under the HTF Guidelines, staff is to evaluate and address the merits of the loan request and proposed development based on the criteria identified below:

Criteria	Merits of the Loan Request
<i>(1) Significantly increases affordable housing opportunities for households who have difficulty finding housing including the homeless, large families, the disabled, seniors, and persons traditionally served by Single-Room Occupancy housing.</i>	The proposed development would increase affordable housing opportunities for large families in Santa Monica who typically have difficulty finding appropriately sized housing in the city. The unit mix includes 14 two-bedrooms and 14 three-bedrooms, or 51% of the development.

<p>(2) <i>Cost-effective of achieve the lowest possible subsidy per unit for City resources.</i></p>	<p>The proposed City subsidy would be leveraged by approximately \$23,747,625 in tax credit equity (or 56% of the total permanent financing) from the 9% Low Income Housing Tax Credits from the State of California, \$1,531,105 in permanent bank loan (4% of the total permanent financing), and \$1,785,000 in an upfront capitalized lease payment (4% of the total permanent financing).</p> <p>CCSM will continue to explore other funding sources during the predevelopment period to ensure that the proposed development is cost-effective and achieves the lowest possible subsidy per unit for City resources.</p>
<p>(3) <i>Benefit a high percentage of very low- and low-income households by ensuring deeper affordability.</i></p>	<p>51 of the 55 residences would target low-income households at or below 60% of the area median income (AMI). 3 of the remaining 4 residences would target households at or below 80% of the area median income (AMI). The remaining residence would be reserved for an onsite manager. Additionally, the proposed development would provide deeper affordability with seven residences at 30% AMI, eleven residences at 40% AMI, and eighteen units at 50% AMI.</p>
<p>(4) <i>Located in areas currently underserved by affordable housing developments.</i></p>	<p>The proposed development is located in the Pico neighborhood which has historically been served by affordable housing developments. However, given the proximity to transit (both the Expo Line and bus routes), schools, supermarkets, parks, and other services, the proposed development would provide new affordable housing opportunities for low-income households as well as convenient access to valuable community amenities.</p>
<p>(5) <i>Address an area of need identified in the Housing Element of the City of Santa Monica.</i></p>	<p>Santa Monica's Housing Element identifies as a goal the provision of housing assistance and supportive services to extremely low-, very low-, low-, and moderate-income households (Goal 5.0) and the facilitation of the development of special need housing which includes large families (Objective 2.f)</p>

<p><i>(6) Addresses a particular need identified in the Council-approved Housing Trust Funds Plan.</i></p>	<p>The Housing Trust Fund Guidelines Initial Plan was approved by City Council in July 2018 identifying affordable housing for four target populations: seniors, persons living with disabilities, larger families, and small families/individuals. The proposed development addresses the identified need of affordable housing for large families and small families/individuals.</p>
<p><i>(7) Loan Applicant's past and projected effectiveness implementing the City-established local preferences (i.e. households which live or work in Santa Monica).</i></p>	<p>CCSM has achieved moderate success in ensuring that Santa Monica residents and workers are beneficiaries of their affordable housing, through outreach and local marketing strategies as well as by applying a local 'preference' methodology favoring residents/workers. CCSM has been working with City staff to achieve a consensus on improving implementation methods to increase the intended outcomes anticipated by the local priority policy.</p>

ISSUES TO CONSIDER

Staff has determined that the proposed affordable housing development reflects appropriate target population and income level, as well as leveraging of non-City funding. However, staff has identified a few issues which could benefit from Housing Commission feedback (and subsequently, City Council direction), as discussed below.

Proposed Developer Fee

Per the HTF Guidelines, the developer fee for new construction developments over 50 residences is negotiated. However, the HTF Guidelines do not provide specific direction or criteria to assist in determining an appropriate negotiated developer fee. For context, the HTF Guidelines establish that new construction developments between 31 and 50 residences would qualify for a developer fee of \$18,456 per residence, which would equate to \$1,015,080. CCSM is requesting a developer fee of \$34,076 per residence. The requested developer fee is lower than the maximum fee allowed by LIHTC standards, which for the proposed developer is estimated at \$1,900,328.

City-funded affordable housing developments are typically subject to the fixed developer fee established in the HTF Guidelines. The fixed amounts may be lower than amounts allowed by other entities but also recognize that Santa Monica provides higher loan amounts than other jurisdictions. Staff agree that the additional developer work and extended development timeline associated with the land use approvals for the proposed 55-residence development (i.e., a Development Review Permit) may warrant a modest increase above the \$18,456 per-residence developer fee established for slightly smaller developments. However, the requested developer fee represents a substantial premium which staff does not support. Staff requests Housing Commission feedback on this issue.

Local Priority Policy

CCSM proposes to utilize targeted marketing to the residents within the Pico neighborhood, in coordination with the Pico Neighborhood Association (PNA), regarding the opportunities to apply for affordable housing via CCSM's wait list. CCSM has also committed to offering credit repair workshops in the coming months, advertised through the PNA, for residents interested in obtaining future housing with CCSM.

Staff has concerns regarding CCSM's implementation of the City's local priority policy, which provides priority in affordable housing occupancy to households who live or work in Santa Monica. Staff is concerned that CCSM's implementation of the local priority policy does not achieve the intended outcome of the policy. CCSM and staff have been discussing approaches to implementing the local priority policy to increase the effectiveness and desired outcome.

The HTF Guidelines indicate that the local priority policy is a condition of City funding. Staff does not recommend funding for affordable housing developments which do not implement the local priority policy consistent with City methodology. Staff would appreciate Housing Commission feedback on this issue.

Affordable Housing Development Dispersal

The HTF Guidelines include a goal of dispersing affordable housing opportunities throughout the Santa Monica, represented in the direction to favor developments which “are located in areas currently underserved by affordable housing developments”. The proposed development is in the Pico Neighborhood, which has historically been the recipient of affordable housing production and preservation efforts (as has all Santa Monica neighborhoods, in varying degrees). Some in the community perceive affordable housing as a benefit while others perceive it as a detriment. Staff has some concern that the HTF Guidelines do not provide specificity with respect to measuring what constitutes an ‘abundance’ or ‘concentration’ of affordable housing in a particular neighborhood. Nonetheless, the Pico Neighborhood is experiencing the pressure of gentrification and affordable housing can act as a buffer to mitigate such pressures. Staff would welcome any feedback the Housing Commission has on this issue.

Next Steps

Staff anticipates presenting this matter to Council for consideration before the escrow period financing contingency deadline on March 22nd and will include in the report to Council any input provided by the Housing Commission.

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