

MEMORANDUM

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DATE: MARCH 7, 2011 PC 1300
100651

TO: CRA/LA BOARD OF COMMISSIONERS

FROM: CHRISTINE ESSEL, CHIEF EXECUTIVE OFFICER

STAFF: MARGARITA H. DE ESCONTRIAS, REGIONAL ADMINISTRATOR
DURAN VILLEGAS, PROJECT MANAGER
DORA HUERTA, ASSISTANT PROJECT MANAGER

SUBJECT: **Osborne Apartments.** Loan Agreement with Osborne Street Housing Partners, L.P. (The Related Companies of California, LLC) in an amount not to exceed \$4,000,000 for development of Osborne Apartments at 12041 N. Osborne Street outside of the Earthquake Disaster Assistance Project for Portions of Council District 7 (aka Pacoima/Panorama City Project Area).
EAST VALLEY REGION (CD 7)

LOAN COMMITTEE: Approved at the Investment Committee on February 23, 2011.

RECOMMENDATION(S)

That the CRA/LA Board of Commissioners:

1. Adopt a Subordination resolution making a finding that an economically feasible alternative method of financing the Project on substantially comparable terms without subordination of the CRA/LA's deed of trust and affordability restrictions is not reasonably available and authorizing subordination of the CRA/LA's deed of trust, covenants, and use restrictions to conventional and public sector loans.

That the CRA/LA Board of Commissioners, subject to City Council approval:

1. Amend the Pacoima/Panorama City FY11 budget to transfer \$564,700 of tax increment from budget line item Economic Development (PC6990) to budget line item Affordable Housing (PC1300) for development of Osborne Apartments;
2. Adopt a Finding of Benefit resolution making a finding that the expenditure of Low and Moderate Income Housing Funds and Tax Increment Funds outside of the Pacoima/Panorama City Project Area Project Area for the proposed Osborne Apartments project is of benefit to the project area, and request the City Council to also adopt said resolution; and
3. Authorize the Chief Executive Officer (CEO) or designee to execute a Construction and Permanent Loan Agreement in an amount not to exceed \$4,000,000 and related loan documents with Osborne Street Housing Partners, L.P., a California limited partnership, for development of a 60-unit affordable senior and family rental project in the Lakeview Terrace community.

SUMMARY

The recommended action is needed to authorize a construction and permanent loan in the amount of \$4,000,000 to Osborne Street Housing Partners, L.P. ("Borrower") for the construction of Osborne Apartments ("Project"), a 60-unit affordable housing development that will serve a mix of large families and seniors. A CRA/LA commitment is needed to successfully compete for other outside funding sources with application deadlines in 2011. CRA/LA loan proceeds will be disbursed at closing of the construction financing at which time all other funding commitments will be in place. CRA/LA proceeds will be used toward reimbursement of a portion of the site acquisition and construction costs.

Osborne Apartments will be comprised of 60 affordable units (including 1 one-bedroom resident manager's unit) in side-by-side buildings with distinct amenities for each resident population. The Project consists of 42 senior one-bedroom apartment units in one building and 18 two-story three-bedroom townhomes for large families.

PREVIOUS ACTIONS

Initial Action.

DISCUSSION & BACKGROUND**Location and History**

The Project site is located just outside of the Pacoima/Panorama City Project Area at 12041 N. Osborne Street in the Lakeview Terrace community. The site is currently vacant and the surrounding neighborhood includes a vacant lot and liquor store to the east; multi-family residential uses to the north, including a residential facility operated by the Salvation Army and condominium units; a baseball field to the west; and Hansen Dam Park, the Lake View Terrace Library and the former Children's Museum to the south across Osborne Street.

The Project consists of two contiguous parcels, including a 62,457 square foot parcel and a 38,241 square foot parcel, both of which are situated on the north side of Osborne Street, between Foothill Boulevard and Dronfield Avenue (See Attachment A – Location/Site Map). The Assessor Parcel Numbers are 2532-017-065 and 2532-017-066.

The site is controlled by the Borrower through an Assignment and Assumption Agreement to the Purchase Agreement, entered into between the buyer of the site and Osborne Street Housing Partners, L.P. assigning the buyer's interest in the Purchase Agreement to Osborne Street Housing Partners, L.P. The current site owner originally entered into a purchase agreement with the buyer for acquisition of the site in July 2009. Several amendments have allowed for extensions to the closing dates with a current closing date of September 2011 with an option to extend it through December 2011.

Developer Entity

The developer, The Related Companies of California, LLC ("Related"), formed in 1989, and is an affiliate of The Related Companies, L.P., a real estate firm based in New York City with divisions specializing in development, property management, and financial services. Since its inception, Related has developed over 8,500 units of housing in the state, with properties in Los Angeles, Los Angeles County, Orange County, San Bernardino County, San Diego, San Diego County and in Northern California. The projects range from apartments for low- and moderate-

income seniors and families to a mixed-income high-rise apartment development in downtown San Francisco. Its affordable housing developments have received numerous awards and honors. Related currently has approximately 378 units in four projects under construction and an additional fourteen projects (2,632 units) in predevelopment

Related is a for-profit company with a real estate development staff of 35 that includes developers as well as experts in the fields of finance, design and construction. Key staff include Bill Witte, President and Managing Partner; Frank Cardone, Chief Operating Officer/Director of Development; Steven Sherman, Chief Financial Officer; and Beatrice Hsu, Vice President of Development. Mr. Witte has served as the organization's President and Managing Partner since the organization's creation in 1989, overseeing development of all of its 8,500 units. Prior to that time, Mr. Witte served as Deputy Mayor for Housing and Neighborhoods in San Francisco.

The borrowing entity will be Osborne Street Housing Partners, L.P. a California limited partnership comprised of Related\Osborne Street Development Co., LLC as Administrative General Partner. Related\Osborne Street Development Co., LLC is a California limited liability company formed June 18, 2010. The LLC is comprised of a single managing member, The Related Companies of California, LLC, the developer of the proposed project. A to be determined nonprofit entity/partner will enter as Managing General Partner. A tax credit investor will be admitted as limited partner at close of construction financing.

Description and Project Context

The proposed Project is a new 60-unit intergenerational affordable housing development on an approximately 2.3 acre site, servicing senior and large families in side-by-side buildings. The Project consists of 42 senior one-bedroom/one-bathroom units (approximately 580 sq. ft.) in one three-story building. Amenities in this building will include a community room and kitchen, fitness room, media room, computer room, on-site management and a shaded outdoor patio with barbeques. The remaining 18 units will be three-bedrooms in two-story townhomes (approximately 1,184 sq ft.), which include attached garages. Amenities include a community building with kitchen, children's room, multi-purpose room and computer center. Exterior amenities include an estimated 11,737 square foot central common open space area with a tot-lot and a shaded landscape patio with barbeques. The 59,103-square foot structure will be Type V construction, with three story stacked flats and two story townhomes totaling six buildings on site with 72, open and covered, on-grade parking spaces for residents and visitors. The proposed supportive services include after school programs and adult education classes.

The Developer plans to develop the Project in accordance with the Build It Green rating system for multi-family new home construction and follow the guidelines established by the GreenPoint Rated Program utilizing a Certified Green Building Professional to oversee sustainable design integration and coordination. Some examples of the sustainable building elements which will be incorporated into the Project, include: exceeding Title 24 by 15%, low flow / water efficient plumbing fixtures, low VOC paints, Energy STAR appliances, Energy STAR light fixtures, Green labeled carpet and low emitting adhesives / sealants.

Based on California Housing and Community Development (HCD) rents, 9 units will be restricted to Extremely Low Income, 9 units will be restricted to Very Low Income, 24 units will be restricted to Low Income and 17 units will be restricted to Moderate Income households. A one-bedroom manager's unit will be unrestricted.

The proposed affordable housing development is scheduled to commence construction after the Borrower successfully obtains commitments/awards from all funding sources. The other sources of funding are contingent upon the \$4,000,000 CRA/LA commitment. If City of Los

Angeles Housing Department (LAHD) and Tax Credit Allocation Committee (TCAC) commitments/awards are successfully obtained in the upcoming rounds, construction could commence by the end of 2011. The Developer will be allowed up to two attempts to obtain LAHD and TCAC commitments/awards. If unsuccessful, the CRA/LA will reconsider whether the funds should be reprogrammed for other uses.

Community Benefits

Osborne Apartments will replace two vacant lots, totaling approximately 2.3 acres, with an attractive and secure housing development. The Project will provide quality and affordable housing opportunities for families and seniors and is expected to create 117 construction jobs and 3 permanent jobs. All applicable CRA/LA policies will be required of this Project as listed in the Project Summary Report (Attachment G)

This Project is consistent with the current and future "Projects and Programs" for Affordable Housing Development identified under the Pacoima/Panorama City Project Area's Five Year Implementation Plan. The improvements also support the CRA/LA Strategic Plan Goals 1.1.1, 1.1.2 and 2.1.1.

Findings

The State Redevelopment Law was amended in 1989 (Section 33334.14) to allow subordination of income and use restrictions. The subordination is permitted when the CRA/LA makes a finding that an economically feasible alternative method of financing or refinancing without subordination is not reasonably available and when the CRA/LA obtains written commitments reasonably designed to protect the CRA/LA's investment in the event of default.

Currently, CRA/LA staff is not aware of any domestic lending institutions willing to provide conventional financing without subordination of covenants, as well as CRA/LA loans. Such well-margined low-risk loans are still eligible for credit under the Community Reinvestment Act. The conventional construction and permanent lender has indicated that subordination of the CRA/LA's covenants will be required. Staff recommends that the CRA/LA Board of Commissioners make the finding that an economically feasible alternative method of financing or refinancing without subordination is not reasonably available, but only when the CRA/LA obtains written commitments reasonably designed to protect the CRA/LA's investment in the event of default.

The Subordination Agreement will contain notice provisions such as one or more of the following rights as set forth in the statute:

- A. A right of the CRA/LA to cure a default on the loan.
- B. A right of the CRA/LA to negotiate with the lender after notice of default from the lender.
- C. An agreement that if prior to foreclosure of a loan, the CRA/LA takes title to the property and cures the default on the loan, the lender will not exercise any right it may have to accelerate the loan by reason of transfer of title to the CRA/LA.
- D. Right of the CRA/LA to purchase property from the owner at any time after a default on the loan.

As Indicated in Attachment C, Affordable Housing Information, with the approval of this proposal, the Earthquake Disaster Assistance Project Area for Portions of Council District 7 will

have provided sufficient affordable housing units to comply with the 15% Inclusionary Housing requirement.

As indicated in Attachment C, Affordable Housing Information, with the approval of this proposal, the Earthquake Disaster Assistance Project Area for Portions of Council District 7 will not have spent funds from the Low and Moderate Income Housing Fund in proportion to need, in that the amount of LMIHF spent to date on Very Low units will currently not meet the required percentage, but staff expects to come into compliance on or before the December 31, 2014 statutory compliance.

Financial Analysis

The CRA/LA will enter into a Loan Agreement with the Borrower and provide a \$4,000,000 construction and permanent loan with a 55 year term at 3% simple interest accruing from the date of the promissory note, payable based on the CRA/LA's pro rata share of residual receipts loans (see Attachment B-Standard Term Sheet). The CRA/LA loan will be secured by a Deed of Trust that will be subordinate to the conventional and public sector lenders. The project's financing consists of conventional construction and permanent bank loans, LAHD funds (to be committed), and equity from the syndication of 9% tax credits (to be allocated) (see Attachment D - Sources and Uses). The Project is expected to close construction financing and start construction December 2011 with a completion date of June 2013.

In order to acquire the site prior to construction start, the Developer is currently negotiating with New Economics for Women (NEW), a non-profit developer, to leverage a portion of their Neighborhood Stabilization Program II (NSP II) fund allocation. Short term or bridge financing from NEW for site acquisition costs (estimated at \$3,150,000) would be taken out by a portion of CRA/LA loan proceeds in two installments; at construction close and permanent loan conversion. Commitment of the subject CRA/LA construction/permanent loan is not conditioned upon the award of NSP II funds.

The total development cost of this affordable family project is \$18,104,963 or approximately \$301,736 per unit. These figures are inclusive of 72 parking spaces, approximately 11,737 square feet of open space, sustainability features and other project amenities. The CRA/LA per unit contribution to the Project for the 59 affordable units is \$66,667, and the \$4,000,000 CRA/LA loan as a percentage of the total development cost is 22%.

SOURCE OF FUNDS

Pacoima/Panorama City Redevelopment Project Area Low and Moderate Income Housing Fund and Tax Increment Funds.

PROGRAM AND BUDGET IMPACT

This action will amend the Pacoima/Panorama City FY11 budget to transfer \$564,700 of tax increment from budget line item Economic Development (PC6990) to budget line item Affordable Housing (PC1300) for development of Osborne Apartments. Following the approval of this project, \$11,846,100 of \$18,456,400 will remain for the Affordable Housing category, and \$12,419,766 of \$18,038,393 will remain for the Economic Development category. Sufficient funds are available to make any legally required State ERAF for FY11.

There is no impact on the City's General Fund as a result of this action.

ENVIRONMENTAL REVIEW

The proposed Osborne Apartments project is exempt from provisions of the California Environmental Quality Act (CEQA) pursuant to Section 15194 of the State CEQA Guidelines.

AUTHORITY GRANTED TO CEO OR DESIGNEE

If the Loan Agreement is approved, the CRA/LA Chief Executive Officer or designee would be authorized to take such actions as may be necessary to carry out the Agreement, including, but not limited to, executing the CRA/LA Loan Documents and taking the following actions: (1) extending the Initial Term of the Loan by up to one additional year for a total not to exceed three years; (2) approving revisions to the Project Budget, so long as the changes do not increase the amount of the CRA/LA Loan or otherwise have a material adverse impact on the feasibility of the project; (3) negotiating and executing subordination agreements meeting the requirements of California Health and Safety Code Section 33334.14, and making reasonable modifications to the CRA/LA Loan Documents that may be requested by any Senior Lender or Tax Credit Equity Investor, so long as such changes do not adversely affect the receipt of any material benefit by CRA/LA; (4) negotiating and executing Inter-creditor Agreements with and Estoppel Certificates to other lenders, to the extent such Inter-creditor Agreements and Estoppel Certificates are consistent with the terms of the Loan Agreement; and (5) approving certain non-material revisions to the terms of the Loan Agreement reasonably requested by a Permitted Lender or Tax Credit Equity Investor.

PROJECT SUPPORT

Councilmember Richard Alarcón supports the recommended action.

Christine Essel
Chief Executive Officer

By:

Calvin E. Hollis
Chief Operating Officer
Real Estate and Economic Development

There is no conflict of interest known to me which exists with regard to any CRA/LA officer or employee concerning this action.

ATTACHMENTS

Attachment A: Location/Site Map
Attachment B: Project Term Sheet
Attachment C: Affordable Housing Information
Attachment D: Sources and Uses
Attachment E: Finding of Benefit Resolution
Attachment F: Subordination Resolution
Attachment G: Project Summary Report