



City of Chula Vista

Staff Report

File#: 17-0424, **Item#:** 8.

CONSIDERATION OF A LOAN FOR THE PURCHASE OF REAL PROPERTIES LOCATED AT 750 AND 754-760 ANITA STREET FOR THE FUTURE DEVELOPMENT OF AFFORDABLE HOUSING

RESOLUTION NO. 2017-188 OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA AND NO. 2017-004 OF THE HOUSING AUTHORITY, IN ITS CAPACITY AS THE SUCCESSOR HOUSING ENTITY WITHIN THE MEANING OF HEALTH AND SAFETY CODE SECTION 34176, (1) APPROVING A LOAN OF UP TO \$3,300,000 FOR LAND ACQUISITION AND PRE-DEVELOPMENT EXPENSES TO WAKELAND HOUSING AND DEVELOPMENT CORPORATION OR AN AFFILIATED DEVELOPMENT ENTITY FOR A NEW DEVELOPMENT TO BE LOCATED AT 750 AND 754-760 ANITA STREET AND RELATED COVENANTS TO OFFER RENT- AND INCOME-RESTRICTED APARTMENTS FOR LOWER-INCOME HOUSEHOLDS; AND (2) AUTHORIZING THE CITY MANAGER OR HIS DESIGNEE TO NEGOTIATE AND EXECUTE ALL DOCUMENTS RELATED TO THE LOAN AND THE ACQUISITION AND DEVELOPMENT OF THE SITES IN A FORM APPROVED BY THE CITY ATTORNEY'S OFFICE

RECOMMENDED ACTION

Council / Authority adopt the resolution.

SUMMARY

Wakeland Housing and Development Corporation ("Developer") is requesting a loan commitment for land acquisition and predevelopment costs of up to a total of \$3,300,000 to support creation of new affordable rental housing for very low income households located at properties known as 750-752 and 754-760 Anita Street in the southwestern area of Chula Vista ("Project"). Approval of the recommended actions will enable Developer to assemble the necessary financing for the Project.

ENVIRONMENTAL REVIEW

Environmental Notice

The Director of Development Services has reviewed the proposed Project for compliance with the California Environmental Quality Act (CEQA) and has determined that the Project qualifies for a Class 32 infill development categorical exemption (15332) for new residential units on residential property consistent with the Residential Apartment (R-3) zoning designation, therefore no further environmental review or documentation is required.

Environmental Determination

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BOARD/COMMISSION RECOMMENDATION

With current vacancies on the Housing Advisory Commission, the Commission was unable to consider the Project due to a lack of quorum.

DISCUSSION

To facilitate and materially assist the housing industry in providing adequate and affordable housing for all economic segments of the community and to provide a balance of housing opportunities for very low income, low income and senior households, the City of Chula Vista ("City") has adopted Chula Vista Municipal Code ("CVMC") Chapter 19.90 [Affordable Housing Incentives], consistent with Sections 65915 and 65917 of the California Government Code. Should an applicant agree to construct housing units to be restricted for occupancy by very-low and low-income households as set forth in CVMC §19.90.040, upon the request of the applicant, the City shall make incentives available, in accordance with CVMC §19.90.050, including paragraph (A)(2)(e) [Financial Incentives].

Wakeland Housing and Development Corporation ("Developer") has proposed the development and construction of an affordable rental housing development for very low and low income households on property located at 750-752 and 754-760 Anita Street in the southwestern area of Chula Vista ("Project"). To facilitate the development and financing of the Project, Developer has requested, in accordance with CVMC Chapter 19.90, a land acquisition and predevelopment loan of up to (or not to exceed) three million three hundred thousand dollars (\$3,300,000) to support creation of new affordable rental homes. Project specific predevelopment costs may include feasibility studies, consulting fees, architects, engineers, legal fees and site control expenses such as title reports. Land acquisition costs may include costs for the land, title and recording and any reasonable carrying costs.

In today's competitive land market, developers have found it difficult to negotiate long option periods to acquire land necessary for development of affordable housing which typically involves a minimum of 18 months to receive a commitment of the differing layers of financing and to secure land-use entitlements. If a long term option is negotiated, the land price is more costly because of the extended period. Nonprofit affordable housing developers, such as Wakeland, have difficulty in accumulating significant enough cash resources to pay for predevelopment work that can take several years or to acquire land in a competitive real estate market.

Acquisition of land at the full cost to the developer or with a long term option can serve as an impediment to the production of affordable housing. With the Housing Authority's assistance, the affordable housing developers' carrying costs are reduced while seeking funding from other sources, which contributes to lower overall project costs. Staff is supportive of assisting affordable housing developers with acquisition funding earlier in the predevelopment phase of a project to make them more competitive in securing site control of land and reduce land acquisition costs.

The Property & Project

The real properties to be acquired consists of two separate parcels totaling approximately 1.54 gross acres as follows (see Attachment 1):

Description	Site A	Site B
Address	750-752 Anita Street	754-760 Anita Street
APN	APN 622-072-32-00	APN 622-072-34-00
Lot Size	0.62 acres	0.92 acres
Zoning	Palomar Residential Village	Palomar Residential Village
General Plan	Residential High	Residential High
Existing Uses	1 single family home 3 bed, 2 baths	7 unit multifamily structure Totals 11 bedrooms, 8 baths
Adjacent Uses	Residential homes	Residential homes

It is anticipated that acquisition of the properties may result in the displacement of tenants. Developer will be responsible relocation of pre-existing tenants in compliance with applicable State and federal laws. These residents will receive priority for affordable housing developments and rental assistance programs.

Zoning for the properties is currently Palomar Gateway District - Palomar Residential Village (PRV) permitting residential apartments with a General Plan designation of Residential High. The parcels are flat and present no significant impediments to future redevelopment of the sites.

The properties are in an ideal location for the convenience of residents and for competitive financing programs. The Project will be within comfortable walking and biking distance to recreational and education opportunities and neighborhood services and has direct access to public transportation. Nearby amenities and services include:

- ½ Mile from Palomar Transit Center
- ½ Mile from Food 4 Less and other shopping
- ¾ Mile from Elementary and High School and Harborside Park
- 1 Mile from South Chula Vista Library

The Project site supports a healthy living environment with its walkability.

The properties were appraised in September 2017. This value is based on a highest and best use as vacant land for redevelopment to multifamily residential. The appraiser found that the existing improvements contribute no value to the properties. The Land Acquisition Loan is set at a maximum of the appraised value and additional costs associated with predevelopment costs associated with the proposed development.

A Phase I Environmental Site Assessment has been prepared. The purchase and sale contract stipulates that the seller represents to the best of its knowledge that the site is free of contamination and that the seller is responsible for any contamination of which it is aware or subsequently discovered on the site.

Future development plans anticipate the removal of all existing buildings replaced with approximately 47 affordable rental homes for very low and low income households, in a mix of bedroom unit sizes, a small community room and laundry facilities. A small percentage of the project will be restricted for occupancy by persons with special needs at an extremely low income level, such as persons with

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disabilities or veterans. The Project is proposed as a joint partnership with Developer to bring their strengths and financing skills to the Project and its experience in providing housing for a special needs population.

The Applicant

With over 6,000 housing units in its portfolio across California, Developer has significant experience in developing affordable housing. Developer's developments are diverse in housing type, unit type and financing structure, and they vary in size from 6 units to 504 units. Recent projects in San Diego County include: "Atmosphere", a 205 unit rental project including 51 units for supportive housing for special needs residents in downtown San Diego and Talmadge Gateway, a 100 percent permanent supportive housing community for seniors in partnership with City Heights Community Development Corporation. In Chula Vista, Developer has partnered with the City and Family Health Centers for "Lofts on Landis", a 33-unit rental project in the heart of Third Avenue Village in Chula Vista and the award winning "Los Vecinos" a 42-unit rental project in Southwest Chula Vista. Developer is well-qualified and has demonstrated their desire and commitment to partner with the City, to develop a project that meets the City's affordable housing objectives and to work cooperatively on the design of the project.

Project Financing

Total costs for the development of the Project is estimated to be \$14,450,200, inclusive of the value of the land. Major funding for the Project will be through the Low Income Housing Tax Credit (LIHTC) program (Attachment 2: Source and Uses). As with affordable housing developments with restricted rents, leveraging of various financial resources is necessary for financial feasibility. To assist in closing the financing gap, Wakeland has requested financial assistance from the Housing Authority's Low and Moderate Income Housing Asset fund (LMIHAF or "Housing Fund"), which was established pursuant to Health and Safety Code § 34176(d) and authorized to be used pursuant to Health and Safety Code § 33334.2, 33334.6, and 34176.1.

The use of Low and Moderate Income Housing Asset funds will necessitate a number of the units be restricted to households with special needs at 30 percent or less of the area median income (AMI), or \$25,500 for a family of four, and those households below 50 percent AMI, or \$42,500 for a family of four. As required by State Health and Safety Code 34176.1(a)(3), at least 30 percent of the expenditures of the Low and Moderate Income Housing Asset Fund must be used for the development of housing affordable to, and occupied by, households earning 30 percent or less of the area median income (AMI) and 50 percent of the expenditures for households earning 30-50 percent AMI. With deeper affordability levels, the Housing Authority's business terms will require the Developer to pursue other available funds for financial feasibility, specifically funds targeted to supportive or special needs housing development and operations, such as Mental Health Services Act Housing Program (MHSA) or VHHP (veteran) funding, or the Affordable Housing and Sustainable Communities (AHSC) Grant Program.

The Housing Authority's financial assistance to fill the financing gap will be necessary to demonstrate local commitment and leveraging of local funds in Developer's application for the LIHTC. Additionally, the timely encumbrance and expenditure of Low and Moderate Income Housing Asset Fund funds is necessary or the funds will be required to be transferred to the State's Department of Finance and distributed to taxing entities and the Housing and Community Development Department.

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With rents restricted for all 47 units for lower income households for the required 55 year term, the net operating income is insufficient to support a loan large enough to cover all the project costs. The first mortgage on the project and 9% tax credits would bring approximately \$9,850,000 to the project (approximately 68% of the development costs). Therefore, there remains a financing gap of approximately \$4,600,500. A portion of the developer fee will be contributed back as a source. As a gap lender, the Housing Authority is asked to contribute \$3.3 million, an amount not to exceed the fair market value of the property, in the form of a land acquisition and predevelopment loan to fill the remaining need. For each dollar of Housing Authority subsidy, approximately \$4 of other private/public investment is leveraged.

The Housing Authority's commitment averages \$70,210 for each of the 47 units. This cost is consistent with the per unit subsidy for this type of development in high-cost markets. Given that this Project will also provide affordable housing for a percentage of residents with special needs at 30 percent of AMI, approximately 10 percent of the units, the deep affordability of the Project increases the needed public subsidy. The financial assistance requested by Developer, in accordance with CVMC §19.90.050, is necessary to provide for affordable rents and to lower development costs. The Project cannot be built without such assistance.

The Housing Authority will execute and record the loan agreements and all associated loan documents, in accordance with the Authority's approval, if granted, for this Project, with terms reviewed by the City Attorney's office and satisfactory to the Authority. Assistance will be in the form of a land acquisition and predevelopment loan in an amount not to exceed \$3,300,000 and secured by a note and deed of trust recorded against the property. The principal and interest on the loan would be amortized over fifty-five years and repaid from cash surplus in annual installments. As with all the Housing Authority gap loan amounts, disbursements are made on a reimbursement basis as evidenced by expenditure receipts; therefore, if the full approved loan amounts are not needed, the amounts disbursed will be less than the approved amount.

The required income and rent restrictions, inclusive of serving a special needs population of extremely low income, would be incorporated into the various deed restrictions for the property and maintained for the full 55-year compliance period. Such restrictions would bind all subsequent owners so that the commitment remains in force regardless of ownership. Compliance with these restrictions would be subject annually to regulatory audit and annual tax credit certification.

Tonight's action will direct staff and the City Manager to take the following actions to meet State requirements for the use of Low and Moderate Income Housing Asset funds:

- Enter into all necessary documents, including but not limited to a predevelopment and land acquisition loan agreement, all associated loan documents, and regulatory agreements to commit, an amount not to exceed, \$3,300,000 from the Low and Moderate Income Housing Asset fund.

Public Outreach

Developer hosted a community meeting on August 8th to engage with the community, to provide information on their proposed development, to answer questions, and to better understand the concerns of neighborhood residents and businesses. Invitations were sent to those residents and property owners within a 500 foot radius of the Sites. Approximately, 6 persons were in attendance,

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of which 3 were residents of the subject property. As the Project moves forward, the project will be subject to the City's public notification process. In addition, Developer will continue to engage with the community by mailing informational updates on the project and sending an email newsletter during the construction phase that alerts them to construction-related impacts in the neighborhood.

Conclusion

The Project offers opportunities to provide quality affordable housing to Chula Vista's working families consistent with City housing goals in a location within walking distance to neighborhood services, employment centers, and transportation links. In addition, the Project will revitalize existing underutilized and blighted properties. The requested financial assistance, in an amount up to (or not to exceed) \$3,300,000, provides significant leveraging of the City's resources and is necessary to obtain primary financing for the Project. Furthermore, staff recommends approval of a City land acquisition and predevelopment loan as: (1) Developer, and has done much of the active advance work associated with the Development; and (2) a land acquisition and predevelopment loan is necessary, given the significant need for advance community communication, consideration of needed community amenities and development requirements, and competitive real estate market.

DECISION-MAKER CONFLICT

Staff has reviewed the property holdings of the Housing Authority members and has found no property holdings within 500 feet of the boundaries of the property which is the subject of this action. Consequently, this item does not present a disqualifying real property-related financial conflict of interest under California Code of Regulations Title 2, section 18702.2(a)(11), for purposes of the Political Reform Act (Cal. Gov't Code §87100, et seq.).

Staff is not independently aware, and has not been informed by any Housing Authority member, of any other fact that may constitute a basis for a decision maker conflict of interest in this matter.

LINK TO STRATEGIC GOALS

The City's Strategic Plan has five major goals: Operational Excellence, Economic Vitality, Healthy Community, Strong and Secure Neighborhoods and a Connected Community. The development and provision of quality affordable housing for low income households supports the Connected Community goals as it provides housing to meet residents' needs and priorities.

CURRENT YEAR FISCAL IMPACT

A loan to assist with the acquisition and development costs of the Project, in an amount not to exceed \$3,300,000, is available from the Housing Authority's Low and Moderate Income Housing Asset funds. Sufficient funds were appropriated through the adoption of the Fiscal Year 2017-18 budget for the funding of an affordable housing project, and no additional appropriation is required at this time. There is no financial impact to the City's General Fund as the project and staff costs are covered by the available Housing fund balance.

ONGOING FISCAL IMPACT

The one-time use of Housing Fund balances will result in a negative fiscal impact. However, these funds are restricted solely for the creation or improvement of permanent or transitional affordable housing opportunities. There is no ongoing expense associated with this action.

ATTACHMENTS

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1. Locator Map
2. Existing Sites
3. Summary of Project Sources & Uses

Staff Contact: Leilani Hines, Housing Manager