

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
May 23, 2007

Project Number CA-2007-841

Project Name HDR I & II Portfolio
Address: 1733 West 58th Street, 90062
1040 West 43rd Street, 1063 West 39th Place, 90037
2375 Scarff Street, 2714 Orchard Avenue, 90007
811 North Heliotrope Drive, 90029
2747 Newell Street, 90039
111 South Avenue 63, 90042
Los Angeles, CA County: Los Angeles

Applicant Information

Applicant: LA Property Group, L.P.
Contact Mr. Matt Pond
Address: 12400 Wilshire Boulevard, Suite 1450
Los Angeles, CA 90025
Phone: (310) 826-3174 **Fax:** (310) 826-9504
Sponsors Type: Joint Venture

Bond Information

Issuer: Housing Department of the City of Los Angeles
Expected Date of Issuance: June 8, 2007
Credit Enhancement: N/A

Eligible Basis

Actual: \$11,612,177
Requested: \$11,612,177
Maximum Permitted: \$19,118,842

Extra Feature Adjustments:
Required to Pay Prevailing Wages: 20%

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$432,486	\$0
Recommended:	\$448,695	\$0

Project Information

Construction Type: Acquisition and Rehabilitation
Federal Subsidy: Tax-Exempt / HUD Section 8
HCD MHP Funding: No
Total # of Units: 125
Total # Residential Buildings: 41

Income/Rent Targeting

Federal Setaside Elected: 40%/60%
% & No. of Targeted Units: 100% - 118
55-Year Use/Affordability Restriction: Yes

Number of Units @ or below 50% of area median income: 38
Number of Units @ or below 60% of area median income: 80

<u>Unit Type & Number</u>	<u>2007 Rents % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
5 Studio	50%	\$568
6 Studio	50%	\$647
9 Studio	60%	\$568
13 Studio	60%	\$709
19 One Bedroom	50%	\$693
22 One Bedroom	60%	\$796
21 One Bedroom	60%	\$832
8 Two Bedroom	50%	\$832
14 Two Bedroom	60%	\$999
1 Three Bedroom	60%	\$1,154
1 Studio	Manager's Unit	\$709
1 One-Bedroom	Manager's Unit	\$647
2 One-Bedroom	Managers' Units	\$796
2 Two-Bedroom	Managers' Units	\$999
1 Three-Bedroom	Manager's Unit	\$1,154

The general partners or principal owners are Spruce HDR, LLC and National Homes Trust XII, Inc.

The project developer is Spruce Development LA, LLC.

The management services will be provided by Charter Realty Group.

The market analysis was provided by Integra Realty Resources.

The Local Reviewing Agency has not yet completed a site review of this project. Any negative comments in the LRA report will cause this staff report to be revised to reflect such comments.

Project Financing

Estimated Total Project Cost: \$14,469,849 Per Unit Cost: \$115,759 Construction Cost Per Sq. Foot: \$32

Construction Financing		Permanent Financing	
<u>Source</u>	<u>Amount</u>	<u>Source</u>	<u>Amount</u>
Nuveen Co./RBC Capital – T.E. Bonds	\$6,787,000	J. Nuveen Co./RBC Capital–T.E. Bond	\$6,787,000
L.A. County Housing Authority	\$2,556,000	L.A. County Housing Authority	\$2,556,000
Purchase Option	\$150,000	Purchase Option	\$150,000
Deferred Developer Fee	\$670,942	Deferred Developer Fee	\$669,377
Investor Equity	\$4,307,418	Investor Equity	\$4,307,472
		TOTAL	\$14,469,849

Determination of Credit Amount(s)

Requested Rehabilitation Eligible Basis:	\$2,805,252
Requested Acquisition Eligible Basis:	\$8,816,925
130% High Cost Adjustment:	Yes
Applicable Fraction:	100%
Qualified Rehabilitation Basis:	\$3,646,828
Qualified Acquisition Basis:	\$8,816,925
Applicable Rate:	3.60%
Maximum Annual Federal Rehabilitation Credit:	\$131,286
Maximum Annual Federal Acquisition Credit:	\$317,409
Total Maximum Annual Federal Credit:	\$448,695
Approved Developer Fee in Project Cost:	\$1,515,936
Approved Developer Fee in Eligible Basis:	\$1,515,936
Tax Credit Factor:	\$.96000

Applicant requests annual federal credits of \$432,486, based on a qualified rehabilitation basis of \$3,646,828, a qualified acquisition basis of \$8,816,925, and a funding shortfall of \$4,151,925. Staff recommends annual federal credits of \$448,695, based on a qualified rehabilitation basis of \$3,646,828, a qualified acquisition basis of \$8,816,925, and a funding shortfall of \$4,307,472. In determining the maximum annual federal credit amount, the applicant used an applicable percentage of 3.47% instead of TCAC's underwriting rate of 3.60%. Staff adjusted accordingly.

Cost Analysis and Line Item Review

The requested eligible basis \$11,622,177 is below TCAC's adjusted threshold basis limit \$19,118,842. The basis limit includes the adjustment for projects that are required to pay state or federal prevailing wages. Staff analysis of project costs to determine reasonableness found all fees to be within TCAC's underwriting guidelines and TCAC limitation.

Annual operating expenses exceed the minimum operating expenses established in the Regulations, and the project pro forma shows a positive cash flow from year one.

Staff has calculated federal tax credits based on 3.60% of the qualified basis. Unless the applicant fixed the rate at bond issuance, the Federal Rate applicable to the month the project is placed-in-service will be used to determine the final allocation.

Special Issues/Other Significant Information: The applicant anticipates financing more than 50% of the project aggregate basis with tax-exempt bond proceeds as calculated by the project tax professional. Therefore, the federal credit reserved for this project will not count against the annual ceiling.

The IRS has advised TCAC that the amount of tax-exempt bonds issued, equivalent to at least 50% of aggregate basis, must remain in place through the first year of the credit period or until eligible basis is finally determined.

This project consists of 8 scattered sites in Los Angeles.

Recommendation: Staff recommends that the Committee make a reservation of tax credits in the following amount(s) contingent upon standard conditions and any additional conditions imposed by the Committee:

Federal/Annual	State/Total
\$448,695	\$0

Standard Conditions

If applicant is receiving tax-exempt bond financing from other than CalHFA, the applicant shall apply for a bond allocation from the California Debt Limit allocation Committee's next scheduled meeting, if not previously granted an allocation; shall have received an allocation from CDLAC; and, shall issue bonds within time limits specified by CDLAC.

TCAC makes the reservation only for the project specified above in the form presented, and involving the parties referred to in the application. No changes in the development team or the project will be permitted without the express approval of TCAC.

The applicant must pay TCAC an allocation fee calculated in accordance with regulation. Additionally, TCAC requires the project owner to pay a monitoring fee before issuance of tax forms.

As project costs are anticipated to be the final project costs, staff recommends that a reservation be made in the amount of federal credit shown above on condition that the final project costs be supported by itemized lender approved costs, and certified costs of the buildings as completed.

All unexpended funds in reserve accounts established for the project must remain with the project to be used for the benefit of the property and/or its residents, except for the portion of any accounts funded with deferred developer fees.

All fees charged to the project must be within TCAC limitations. Fees in excess of these limitations will not be considered when determining the amount of credits when the project is placed-in-service.

The applicant/owner shall be subject to underwriting criteria set forth in Section 10327 of the regulations through the final feasibility analysis performed by TCAC at placed-in-service.

Credit awards are contingent upon applicant's acceptance of any revised total project cost, qualified basis and tax credit amount determined by TCAC in its final feasibility analysis.

Additional Conditions: The applicant/owner is required to provide the tenants with on going services for high-speed Internet access and assistance with daily living activities or provision of senior counseling for a minimum of ten (10) years in accordance with the bond allocation from CDLAC. These services may be changed to meet the needs of the tenants upon prior approval from CDLAC and written notification to TCAC.

Project Analyst: Jack Waegell