

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
2017 Second Round
September 20, 2017

Sunnydale Parcel Q, located at 1491 Sunnydale Avenue in San Francisco, requested and is being recommended for a reservation of \$2,500,000 in annual federal tax credits to finance the new construction of 54 units of housing serving large families with rents affordable to households earning 45-60% of area median income (AMI). The project will be developed by Related Development Company of California, LLC and Mercy Housing California. It will be located in Senate District 11 and Assembly District 17.

The project will be receiving rental assistance in the form of HUD Section 8 Project-based Contract.

Project Number CA-17-088

Project Name Sunnydale Parcel Q
 Site Address: 1491 Sunnydale Avenue
 San Francisco, CA 94134 County: San Francisco
 Census Tract: 264.040

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$2,500,000	\$0
Recommended:	\$2,500,000	\$0

Applicant Information

Applicant: Sunnydale Parcel Q Housing Partners, LP
 Contact: Frank Cardone
 Address: 18201 Von Karman Ave, Suite 900
 Irvine, CA 92612
 Phone: 949-660-7272 Fax: 949-660-7273
 Email: fcardone@related.com

General Partner(s) / Principal Owner(s): Related / Sunnydale Parcel Q Development Co., LLC
 Mercy Transformation, LLC
 General Partner Type: Joint Venture
 Parent Company(ies): The Related Companies of California, LLC
 Mercy Housing Calwest, LLC
 Developer: Related Development Company of California, LLC
 Mercy Housing California
 Investor/Consultant: MUFG Union Bank, N.A.
 Management Agent(s): Mercy Housing Management Group

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 1
 Total # of Units: 55
 No. & % of Tax Credit Units: 54 100%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: HUD Section 8 Project-based Contract (41 Units - 75%)
 Affordability Breakdown by Units and % (Lowest Income Points):
 45% AMI: 25 45 %
 50% AMI: 22 40 %

Information

Set-Aside: N/A
 Housing Type: Large Family
 Geographic Area: San Francisco County
 TCAC Project Analyst: Zhuo Chen

Unit Mix

3 SRO/Studio Units
 19 1-Bedroom Units
 19 2-Bedroom Units
 14 3-Bedroom Units

 55 Total Units

<u>Unit Type & Number</u>	<u>2017 Rents Targeted % of Area Median Income</u>	<u>2017 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
1 SRO/Studio	45%	39%	\$908
9 1 Bedroom	45%	42%	\$1,038
9 2 Bedrooms	45%	39%	\$1,168
6 3 Bedrooms	45%	38%	\$1,298
2 SRO/Studio	50%	44%	\$1,009
3 2 Bedrooms	50%	44%	\$1,298
1 3 Bedrooms	50%	42%	\$1,441
7 1 Bedroom	50%	47%	\$1,154
4 2 Bedrooms	50%	44%	\$1,298
5 3 Bedrooms	50%	42%	\$1,441
3 1 Bedroom	60%	47%	\$1,154
2 2 Bedrooms	60%	44%	\$1,298
2 3 Bedrooms	60%	42%	\$1,441
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Projected Lifetime Rent Benefit: \$54,250,020

Project Cost Summary at Application

Land and Acquisition	\$3,663,900
Construction Costs	\$30,587,228
Rehabilitation Costs	\$0
Construction Contingency	\$3,123,113
Relocation	\$0
Architectural/Engineering	\$2,119,756
Const. Interest, Perm. Financing	\$2,666,400
Legal Fees, Appraisals	\$95,000
Reserves	\$1,176,825
Other Costs	\$2,751,428
Developer Fee	\$1,647,822
Commercial Costs	\$0
Total	\$47,831,472

Project Financing

Estimated Total Project Cost:	\$47,831,472
Estimated Residential Project Cost:	\$47,831,472
Estimated Commercial Project Cost:	\$0

Residential

Construction Cost Per Square Foot:	\$469
Per Unit Cost:	\$869,663
True Cash Per Unit Cost*:	\$869,663

Construction Financing

<u>Source</u>	<u>Amount</u>
MUFG Union Bank, N.A.	\$30,813,037
SFMOHCD ¹ Acquisition Loan	\$3,000,000
SFMOHCD Predevelopment Loan	\$2,000,000
SFMOHCD Gap Loan	\$7,466,847
Deferred Operating Reserve	\$750,990
Deferred Transition Reserve	\$425,835
Deferred Developer Fee	\$1,000,000
Tax Credit Equity	\$2,374,763

Permanent Financing

<u>Source</u>	<u>Amount</u>
MUFG Union Bank - Tranche A	\$99,000
MUFG Union Bank - Tranche B	\$11,518,000
SFMOHCD Acquisition Loan	\$3,000,000
SFMOHCD Predevelopment Loan	\$2,000,000
SFMOHCD Gap Loan	\$7,466,847
Tax Credit Equity	\$23,747,625
TOTAL	\$47,831,472

*Less Donated Land, Fee Waivers, Seller Carryback Loans, and Deferred Developer Fee

¹SFMOHCD: Mayor's Office of Housing and Community Development, City and County of San Francisco

Determination of Credit Amount(s)

Requested Eligible Basis:	\$32,063,650
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$41,682,745
Applicable Rate:	9.00%
Total Maximum Annual Federal Credit:	\$2,500,000
Approved Developer Fee in Project Cost:	\$1,647,822
Approved Developer Fee in Eligible Basis:	\$1,400,000
Investor/Consultant:	MUFG Union Bank, N.A.
Federal Tax Credit Factor:	\$0.94991

Per Regulation Section 10327(c)(6), the “as if vacant” land value and the existing improvement value established at application, as well as the eligible basis amount derived from those values, will be used during all subsequent reviews including the placed in service review, for the purpose of determining the final award of Tax Credits.

Per Regulation Section 10327(c)(2)(C), once established at the initial funded application, the developer fee cannot be increased, but may be decreased, in the event of a modification in basis, except that the adjustment factor related to costs described in Section 10327(c)(2)(A) shall be recalculated at placed in service where applicable.

Eligible Basis and Basis Limit

Requested Unadjusted Eligible Basis:	\$32,063,650
Actual Eligible Basis:	\$40,111,303
Unadjusted Threshold Basis Limit:	\$22,632,994
Total Adjusted Threshold Basis Limit:	\$32,063,651

Adjustments to Basis Limit

- Required to Pay State or Federal Prevailing Wages/Financed by labor-affiliated organization employing construction workers paid at least state or federal prevailing wages
- Parking Beneath Residential Units or On-Site Parking Structure of Two or More Levels
- One or More Energy Efficiency/Resource Conservation/Indoor Air Quality Features:
 - New construction: project buildings are at least 15% more energy efficient than 2013 Energy Efficiency Standards (California Code of Regulations, Title 24, Part 6) as indicated in TCAC Regulations, as the project's building permit applications were submitted on or before December 31, 2016.
- Local Development Impact Fees
- 95% of Upper Floor Units are Elevator-Serviced

Tie-Breaker Information

Initial:	Letter of Support
First:	Large Family
Final:	46.262%

Cost Analysis and Line Item Review

Staff analysis of project costs to determine reasonableness found all fees to be within TCAC’s underwriting guidelines and TCAC limitations. 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 9.0% of the qualified basis, or, in the case of acquisition credit or credit combined with federal subsidies, 3.23%. Applicants are cautioned to consider the expected federal rate when negotiating with investors. TCAC's financial evaluation at project completion will determine the final allocation.

Special Issues/Other Significant Information

The project is located in San Francisco, which has one of the highest development costs in the nation. Development costs of the project are approximately \$869,663 per unit. Aside from the geographic location, three unique factors are also attributable to the high costs of this project: 1) the underlying land was purchased from an unrelated private third party for a purchase price of approximately \$3,000,000; 2) there are extensive off-site improvements and site work required for the project totaling approximately \$1,300,000; and 3) the development budget includes approximately \$1,200,000 in operating and transition reserves as required by investors to mitigate appropriations risk, given that 75% of the units are supported by HUD Section 8 Project-Based Vouchers.

Legal Status

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed that raised any question regarding the financial viability or legal integrity of the applicant.

Local Reviewing Agency

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.

Recommendation

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

Federal Tax Credits/Annual	State Tax Credits/Total
\$2,500,000	\$0

Standard Conditions

The applicant must submit all documentation required for a Carryover Allocation and any Readiness to Proceed Requirements elected. Failure to provide the documentation at the time required may result in rescission of the Credit reservation and cancellation of a carryover allocation.

TCAC makes the preliminary 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 as presented will be permitted without the express approval of TCAC.

The applicant must pay TCAC a performance deposit and 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 preliminary estimates only, staff recommends that a reservation be made in the amount of federal credit and state credit shown above on condition that the final project costs be supported by itemized lender approved costs and certified costs after the buildings are placed in service.

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 credit 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.

The applicant must ensure the project meets all Additional Threshold Requirements of the proposed project. If points were awarded for service amenities, the applicant will be required to provide such amenity or amenities identified in the application, for a minimum period of fifteen years and at no cost to the tenants. Applicants that received points for sustainable building methods (energy efficiency) must submit the certification required by Section 10325(c)(6) at project completion. Applicants that received increases (exceptions to limits) in the threshold basis limit under Section 10327(c)(5) must submit the certification required by Section 10322(i)(2) at project completion.

Additional Conditions: None.

Points System	Max. Possible Points	Requested Points	Points Awarded
Cost Efficiency / Credit Reduction / Public Funds	20	20	20
Public Funds	20	20	20
Owner / Management Characteristics	9	9	9
General Partner Experience	6	6	6
Management Experience	3	3	3
Housing Needs	10	10	10
Site Amenities	15	15	15
Within ½ mile of transit, service every 30 min, 25 units/acre density	7	7	7
Within ½ mile of public park or community center open to general public	3	3	3
Within ½ mile of public library	3	3	3
Within ½ mile of public middle school	3	3	3
Within 1 mile of a pharmacy	1	1	1
Service Amenities	10	5	5
LARGE FAMILY, SENIOR, AT-RISK HOUSING TYPES			
Service Coordinator, minimum ratio of 1 FTE to 600 bedrooms	5	5	5
Sustainable Building Methods	5	5	5
NEW CONSTRUCTION/ADAPTIVE REUSE			
Develop project in accordance w/ requirements of GreenPoint Rated	5	5	5
Energy efficiency beyond CA Building Code Title 24 requirements: 15%	5	5	5
Lowest Income	52	45	45
Basic Targeting	50	45	45
Readiness to Proceed	15	15	15
Miscellaneous Federal and State Policies	2	2	2
State Credit Substitution	2	2	2
Revitalization Area Project	2	2	2
Total Points	138	126	126

Please Note: If more than the maximum Site Amenity points were requested, not all amenities may have been scored and/or verified.

DO NOT RELY ON SCORING IN THIS COMPETITIVE CYCLE FOR FUTURE APPLICATIONS. ALL RE-APPLICATIONS ARE REVIEWED WITHOUT RELIANCE ON PAST SCORING.