

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
December 10, 2014
Staff Report
REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR A
QUALIFIED RESIDENTIAL RENTAL PROJECT

Prepared by: Richard Fischer

Applicant: Housing Authority of the City of San Diego

Allocation Amount Requested:
Tax-exempt: \$25,687,989

Project Information:
Name: Atmosphere II Apartments
Project Address: 1453 Fourth Avenue
Project City, County, Zip Code: San Diego, San Diego, 92101

Project Sponsor Information:
Name: Wakeland Atmosphere II, LP (Wakeland Atmosphere II, LLC)
Principals: Joan Edelman and Kenneth L. Sauder for Wakeland Atmosphere II, LLC.
Property Management Company: FPI Management, Inc.

Project Financing Information:
Bond Counsel: Orrick, Herrington & Sutcliffe LLP
Underwriter: Not Applicable
Credit Enhancement Provider: Not Applicable
Private Placement Purchaser: US Bank, N.A.
TEFRA Adoption Date: July 7, 2014

Description of Proposed Project:
State Ceiling Pool: General
Total Number of Units: 103, plus 2 manager units
Type: New Construction
Type of Units: Family

Atmosphere II comprises 30 one-bedroom, 60 two-bedroom and 15 three-bedroom units, for a total of 105 units. The project will have affordability restrictions at 50% AMI and 60% AMI. Common area amenities include interior common space on the ground floor with a laundry room adjacent to the kids' play area, computer room, and two large community rooms, as well as outdoor open space at the ground level and on the eighth floor roof deck, where the residents could enjoy outdoor relaxation within the landscaped respite. A second laundry room is situated on the eighth floor roof deck for a total of 21 washers and 21 dryers for the 105 units. Wakeland plans to operate a resident services program in the community spaces, including Adult Educational Classes and the provision of an on-site Service Coordinator. In addition, the front desk will be provided with security personnel 24 hours a day.

Description of Public Benefits:

Percent of Restricted Rental Units in the Project: 100%

11% (11 units) restricted to 50% or less of area median income households.

89% (92 units) restricted to 60% or less of area median income households.

Unit Mix: 1, 2 & 3 bedrooms

Service amenity of instructor-led educational, health and wellness or skill building classes will be included.

Term of Restrictions:

Income and Rent Restrictions: 55 years

Details of Project Financing:

Estimated Total Development Cost:	\$	41,401,478	
Estimated Hard Costs per Unit:	\$	246,870	(\$25,427,623 /103 units)
Estimated per Unit Cost:	\$	401,956	(\$41,401,478 /103 units)
Allocation per Unit:	\$	249,398	(\$25,687,989 /103 units)
Allocation per Restricted Rental Unit:	\$	249,398	(\$25,687,989 /103 restricted units)

The Project has total project costs that appear high for the geographic area in which it is located. According to the Project sponsor, the high cost is due to being a Type I, poured in place concrete, 12 story high-rise in downtown San Diego. The height and density of Atmosphere II is driven by the planning requirements of the City. The project is also providing 6,800 square feet of indoor common area and 15,000 square feet of outdoor common area. This common area is being provided to meet City requirements and the needs of tenants living in an urban high-rise project. Atmosphere II is an urban infill development located in a downtown location: staging and transportation of materials/equipment are more challenging for an infill site bordered on three sides by existing buildings. Also, more expensive safety measures (traffic control, pedestrian barriers, etc.) are necessary for downtown urban areas with high vehicle traffic and pedestrian activities. A high-rise takes longer to construct and the time-associated costs of the construction period have a greater total.

Sources of Funds:	Construction	Permanent
Tax-Exempt Bond Proceeds	\$ 25,687,989	\$ 7,935,500
Developer Equity	\$ 900,000	\$ 900,000
LIH Tax Credit Equity	\$ 1,872,389	\$ 19,899,378
Direct & Indirect Public Funds	\$ 11,600,000	\$ 11,600,000
Other	\$ 1,341,100	\$ 1,066,600
Total Sources	\$ 41,401,478	\$ 41,401,478

Uses of Funds:	
Acquisition/Land Purchase	\$ 0
On & Off Site Costs	\$ 2,195,326
Hard Construction Costs	\$ 23,232,297
Architect & Engineering Fees	\$ 1,376,780
Contractor Overhead & Profit	\$ 3,493,936
Developer Fee	\$ 2,500,000
Cost of Issuance	\$ 622,631
Capitalized Interest	\$ 1,300,454
Other Soft Costs (Marketing, etc.)	\$ 6,680,054
Total Uses	\$ 41,401,478

Description of Financial Structure and Bond Issuance:

The Housing Authority of the City of San Diego will be issuing the private placement bonds and US Bank, N.A. will be providing the financing. The construction period terms are LIBOR + 175bps (Variable Rate). At time of Loan closing, the \$25,687,989 loan issue will be priced at a floating interest rate equal to 30-Day LIBOR including liquidity add on plus 175 basis points. Construction period is expected to be 27 months. The Permanent Loan will be CIP + 175 bps (Fixed Rate). At the time of closing, the \$7,935,500 loan will be priced at a fixed interest rate based on the applicable U.S. Bank CIP rate for a 17-year term loan (30-year amortization) plus 175 basis points. This rate is subject to market fluctuation prior to loan closing. This rate will be fixed at closing. For your reference purposes only, the current rate as of October 1, 2014 is 5.25%.

Analyst Comments:

Not Applicable

Legal Questionnaire:

The Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the application. No information was disclosed to question the financial viability or legal integrity of the Applicant.

Total Points: 80.5 out of 130
[See Attachment A]

Recommendation:

Staff recommends that the Committee approve \$25,687,989 in tax exempt bond allocation on a carryforward basis.

ATTACHMENT A

EVALUATION SCORING:

Point Criteria	Maximum Points Allowed for Non-Mixed Income Projects	Maximum Points Allowed for Mixed Income Projects	Points Scored
Federally Assisted At-Risk Project or HOPE VI Project	20	20	0
Exceeding Minimum Income Restrictions:	35	15	25
Exceeding Minimum Rent Restrictions [Allowed if 10 pts not awarded above in Federally Assisted At-Risk Project or HOPE VI Project]	[10]	[10]	10
Gross Rents	5	5	5
Large Family Units	5	5	0
Leveraging	10	10	10
Community Revitalization Area	15	15	0
Site Amenities	10	10	7.5
Service Amenities	10	10	5
New Construction	10	10	10
Sustainable Building Methods	10	10	8
Negative Points	-10	-10	0
Total Points	130	100	80.5

The criteria for which points are awarded will also be incorporated into the Resolution transferring Allocation to the Applicant as well as the appropriate bond documents and loan and finance agreements.