

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
March 21, 2007

Project Number CA-2007-808

Project Name San Pedro Apartments
Address: 235 S. San Pedro Street
Los Angeles, CA 90012

County: Los Angeles

Applicant Information

Applicant: Related/ LL Block 8, LLC
Contact: Rick Westberg
Address: 18201 Von Karman Avenue, Suite 900
Irvine, CA 92612
Phone: (949) 660-7272 Fax: (949) 660-7273 email: rwestberg@related.com
Sponsors Type: For Profit

Bond Information

Issuer: California Statewide Communities Development Authority
Expected Date of Issuance: June, 2007
Credit Enhancement: CalPERS Reimbursement Agreement with Lender

Eligible Basis

Actual: \$63,984,547
Requested: \$63,984,547
Maximum Permitted: \$65,674,813

Extra Feature Adjustments:
Parking Beneath Residential Units: 7%
55-Year Use/Rent Restriction Adjustment: 80%
Local Development Impact Fees

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$531,014	\$0
Recommended:	\$530,322	\$0

Project Information

Construction Type: New Construction
Federal Subsidy: Tax-Exempt
HCD MHP Funding: No
Total # of Units: 230
Total # Residential Buildings: 1

Income/Rent Targeting

Federal Setaside Elected: 20%/50%
% & No. of Targeted Units: 17.71%-46 units
55-Year Use/Affordability Restriction: Yes
Number of Units @ or below 50% of area median income: 46
Number of Units @ or below 60% of area median income: 0

<u>Unit Type & Number</u>	<u>2007 Rents % of Area Median Income</u>	<u>Proposed Rent</u>
2 Studio units	40%	\$485
11 Studio units	50%	\$606
4 One-bedroom units	40%	\$519
20 One-bedroom units	50%	\$649
1 Two-bedroom unit	40%	\$624
8 Two-bedroom units	50%	\$780
1 Two-bedroom unit	Manager' unit	\$0
1 Studio unit	Market Rate	\$1,725
2 Studio units	Market Rate	\$1,880
35 Studio units	Market Rate	\$1,890
10 Studio units	Market Rate	\$1,920
5 Studio units	Market Rate	\$2,050
1 Studio unit	Market Rate	\$2,060
1 Studio unit	Market Rate	\$2,100
7 One-bedroom units	Market Rate	\$1,970
50 One-bedroom units	Market Rate	\$2,000
5 One-bedroom units	Market Rate	\$2,030
5 One-bedroom units	Market Rate	\$2,100
5 One-bedroom units	Market Rate	\$2,130
10 One-bedroom units	Market Rate	\$2,200

The project developer is The Related Companies of California.

The management services will be provided Related Management Company.

The market analysis was provided by The Concord Group.

The Local Reviewing Agency, the Los Angeles County Redevelopment Agency, has completed a site review of this project and strongly supports this project.

Project Financing

Actual Total Project Cost: \$74,694,077 Per Unit Cost: \$315,098 Construction Cost Per Sq. Ft.: \$157

<u>Construction Financing</u>		<u>Permanent Financing</u>	
<u>Source</u>	<u>Amount</u>	<u>Source</u>	<u>Amount</u>
Goldman Sachs (T/E Bonds)	\$69,685,320	Goldman Sachs (T/E Bonds)	\$69,685,320
Deferred Costs	\$4,481,880	Investor Equity	\$5,008,757
Investor Equity	\$254,836		
		TOTAL	\$74,694,077

Determination of Credit Amount(s)

Requested Eligible Basis:	\$63,984,547
130% High Cost Adjustment:	Yes
Applicable Fraction:	17.71%
Qualified Basis:	\$14,731,162
Applicable Rate:	3.60%
Maximum Allowable Annual Federal Credit:	\$530,322
Approved Developer Fee:	\$2,500,000
Tax Credit Factor:	\$.96

Applicant requested \$531,014 in federal credits. Staff recommends annual federal credits of **\$530,322** based on a qualified basis of \$14,731,162, and a funding shortfall of \$5,008,757. The project has only 17.71% of the units identified as low-income units. TCAC will defer until Placed-in-Service a legal/ tax professional's opinion that states the entities involved in the purchase and construction of the project meet the TCAC and IRS requirements pertaining to related parties and that the 17.71% applicable fraction does not conflict with the 20/50 IRS requirement. Applicant is advised that should it be determined that the project does not meet the 20% at 50% IRC requirement, the applicant will be required to comply with the IRC regulations before issuance of the Form 8609. Additionally, the applicant is advised that the project currently exceeds TCAC's maximum allowable income levels for the 1st three years. Should this condition exist at Placed-in-Service, the maximum allowable tax credits will be reduced by the amount of overages for the 1st three year commensurate with either 8% of Gross Income or 25% of debt service. Finally, applicant exceeded the maximum allowable Developer Fee limit of \$2,500,000. Staff adjusted accordingly which decreased the maximum allowable eligible basis and resultant reduction of Developer Fee to maximum limits.

Cost Analysis and Line Item Review

The requested eligible basis \$63,984,547 is below TCAC's adjusted threshold basis limit **\$65,674,813**. **The basis limit includes the adjustment for extraordinary features for projects that are required to provide parking beneath the residential units, and the 100% adjustment for the 55-year use/affordability restriction for projects that have 50% or less tax-credit units and are not located in a DDA/QCT.** 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.

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:

\$530,322 Federal/Annual

\$0 State/Total

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 not required to provide the tenants with any **type of services** for a minimum of ten (10) years in accordance with the bond allocation from CDLAC.

Project Analyst: G. Boyd