

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
July 20, 2016

Antelope Valley Apartments, located at 43460 32nd Street West in the city of Lancaster, requested and is being recommended for a reservation of \$644,133 in annual federal tax credits to finance the acquisition and rehabilitation 119 units of housing serving tenants with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by DeSola Development Associates, LLC and is located in Senate District 21 and Assembly District 36.

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

Project Number CA-16-865

Project Name Antelope Valley Apartments
Site Address: 43460 32nd Street West
Lancaster, CA 93536 County: Los Angeles
Census Tract: 9010.100

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$644,133	\$0
Recommended:	\$644,133	\$0

Applicant Information

Applicant: Antelope Valley Apartment Associates, L.P.
Contact: Gary Grant
Address: 19800 MacArthur Blvd., Suite 300
Irvine, CA 92612
Phone: (949) 440-2330
Email: ggrant@desolacap.com

General Partner(s) or Principal Owner(s): Antelope Valley GP, L.P.
AOF Antelope Valley, LLC

General Partner Type: Joint Venture

Parent Company(ies): DeSola Capital Group, LLC
AOF/Pacific Affordable Housing Corp.

Developer: DeSola Development Associates, LLC

Investor/Consultant: PNC Bank, N.A.

Management Agent: Sage Apartment Communities, Inc.

Project Information

Construction Type: Acquisition & Rehabilitation
 Total # Residential Buildings: 16
 Total # of Units: 121
 No. & % of Tax Credit Units: 119 100.00%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: Tax-Exempt / HUD Section 8 Project-based Contract (120 units - 100%)
 HCD MHP Funding: No
 55-Year Use/Affordability: Yes
 Number of Units @ or below 50% of area median income: 24
 Number of Units @ or below 60% of area median income: 95

Bond Information

Issuer: California Municipal Finance Authority
 Expected Date of Issuance: September 2016
 Credit Enhancement: N/A

Information

Housing Type: Non-Targeted
 Geographic Area: Balance of Los Angeles County
 TCAC Project Analyst: Jack Waegell

Unit Mix

107 2-Bedroom Units
 14 3-Bedroom Units

 121 Total Units

<u>Unit Type & Number</u>	<u>2016 Rents Targeted % of Area Median Income</u>	<u>2016 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
21 2 Bedrooms	50%	48%	\$933
84 2 Bedrooms	60%	57%	\$1,105
3 3 Bedrooms	50%	48%	\$1,079
11 3 Bedrooms	60%	57%	\$1,295
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Project Cost Summary at Application

Land and Acquisition	\$12,000,000
Construction Costs	\$0
Rehabilitation Costs	\$2,996,964
Construction Contingency	\$309,136
Relocation	\$322,500
Architectural/Engineering	\$100,000
Construction Interest, Perm Financing	\$1,060,897
Legal Fees, Appraisals	\$115,000
Reserves	\$509,557
Other Costs	\$354,231
Developer Fee	\$2,375,000
Commercial Costs	\$0
Total	\$20,143,285

Project Financing

Estimated Total Project Cost:	\$20,143,285
Estimated Residential Project Cost:	\$20,143,285
Estimated Commercial Project Cost:	\$0

Residential

Construction Cost Per Square Foot:	\$27
Per Unit Cost:	\$166,473
True Cash Per Unit Cost*:	\$166,473

Construction Financing

Source	Amount
Boston Private Bank	\$14,000,000
Income from Operations	\$344,972
Deferred Developer Fee	\$1,719,935
Tax Credit Equity	\$4,078,378

Permanent Financing

Source	Amount
Boston Private Bank	\$13,100,000
Income from Operations	\$344,972
Tax Credit Equity	\$6,698,313
TOTAL	\$20,143,285

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

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	\$5,465,847
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	\$12,713,888
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$7,105,601
Qualified Basis (Acquisition):	\$12,713,888
Applicable Rate:	3.25%
Maximum Annual Federal Credit, Rehabilitation:	\$230,932
Maximum Annual Federal Credit, Acquisition:	\$413,201
Total Maximum Annual Federal Credit:	\$644,133
Approved Developer Fee (in Project Cost & Eligible Basis):	\$2,375,000
Investor/Consultant:	PNC Bank, N.A.
Federal Tax Credit Factor:	\$1.03990

Per Regulation Section 10322(h)(9)(A), 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.

Eligible Basis and Basis Limit

Requested Unadjusted Eligible Basis:	\$18,179,735
Actual Eligible Basis:	\$18,179,735
Unadjusted Threshold Basis Limit:	\$33,478,560
Total Adjusted Threshold Basis Limit:	\$40,174,272

Adjustments to Basis Limit

55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units are Income Targeted between 50% AMI & 36% AMI: 20%

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 3.25% of the qualified basis. 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

This project has an existing HUD Section 8 project-based contract for 120 units.

Local Reviewing Agency

The Local Reviewing Agency, the City of Lancaster, has completed as site review of this project and supports this project.

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
\$644,133	\$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.

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.

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 reservation 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.

Additional Conditions: None.