

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
August 17, 2016

500 Folsom (aka Transbay 9), located at 500-510 Folsom Street in San Francisco, requested and is being recommended for a reservation of \$3,424,279 in annual federal tax credits to finance the new construction of 108 units of housing serving tenants with rents affordable to households earning 50% of area median income (AMI). The project will be developed by Essex Block 9 Manager, LLC and will be located in Senate District 11 and Assembly District 17.

Project Number CA-16-925

Project Name 500 Folsom (aka Transbay 9)
Site Address: 500-510 Folsom Street
San Francisco, CA 94105 County: San Francisco
Census Tract: 61500.00

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$3,424,279	\$0
Recommended:	\$3,424,279	\$0

Applicant Information

Applicant: BRIDGE 500 Folsom LLC
Contact: Ann Silverberg
Address: 600 California, #900
San Francisco, CA 94108
Phone: (415) 989-1111 **Fax:** (415) 495-4898
Email: asilverberg@bridgehousing.com

General Partner(s) or Principal Owner(s): Essex 500 Folsom, LLC
BRIDGE 500 Folsom LLC

General Partner Type: Joint Venture

Parent Company(ies): Essex Property Trust
BRIDGE Housing Corporation

Developer: Essex Block 9 Manager, LLC

Investor/Consultant: California Housing Partnership Corporation

Management Agent: Essex Portfolio, LP

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 1
 Total # of Units: 109
 No. & % of Tax Credit Units: 108 100.00%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: Tax-Exempt
 HCD MHP Funding: No
 55-Year Use/Affordability: Yes
 Number of Units @ or below 50% of area median income: 108

Bond Information

Issuer: City & County of San Francisco
 Expected Date of Issuance: September 1, 2016
 Credit Enhancement: N/A

Information

Housing Type: Non-Targeted
 Geographic Area: San Francisco County
 TCAC Project Analyst: Connie Harina

Unit Mix

34 SRO/Studio Units
 61 1-Bedroom Units
 14 2-Bedroom Units

 109 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>
34 SRO/Studio	50%	44%	\$943
61 1 Bedroom	50%	47%	\$1,078
13 2 Bedrooms	50%	44%	\$1,213
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Project Cost Summary at Application

Land and Acquisition	\$9,325,451
Construction Costs	\$55,717,092
Rehabilitation Costs	\$0
Construction Contingency	\$5,516,516
Relocation	\$0
Architectural/Engineering	\$3,196,680
Const. Interest, Perm. Financing	\$3,064,218
Legal Fees, Appraisals	\$200,000
Reserves	\$292,573
Other Costs	\$3,601,252
Developer Fee	\$10,571,481
Commercial Costs	\$0
Total	\$91,485,263

Project Financing

Estimated Total Project Cost:	\$91,485,263
Estimated Residential Project Cost:	\$91,485,263
Estimated Commercial Project Cost:	\$0

Residential

Construction Cost Per Square Foot:	\$532
Per Unit Cost:	\$839,314
True Cash Per Unit Cost*:	\$759,097

Construction Financing

Source	Amount
Citi Community Capital	\$46,264,000
Equity Contribution**	\$22,798,017
Capital Contribution - Land**	\$8,743,646
Tax Credit Equity	\$3,756,266

Permanent Financing

Source	Amount
Permanent Loan**	\$3,097,000
Equity Contribution**	\$32,150,974
Capital Contribution - Land**	\$8,743,646
GP Capital Contribution	\$7,991,481
Tax Credit Equity	\$39,502,162
TOTAL	\$91,485,263

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

**Block 9 Residential LLC

Determination of Credit Amount(s)

Requested Eligible Basis:	\$81,048,019
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$105,362,425
Applicable Rate:	3.25%
Maximum Annual Federal Credit:	\$3,424,279
Approved Developer Fee (in Project Cost & Eligible Basis):	\$10,571,481
Investor/Consultant:	California Housing Partnership Corporation
Federal Tax Credit Factor:	\$1.15359

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:	\$81,048,019
Actual Eligible Basis:	\$81,048,019
Unadjusted Threshold Basis Limit:	\$39,380,274
Total Adjusted Threshold Basis Limit:	\$85,455,194

Adjustments to Basis Limit

- Parking Beneath Residential Units or On-Site Parking Structure of Two or More Levels
- 95% of Upper Floor Units are Elevator-Serviced
- 55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units are Income Targeted between 50% AMI & 36% AMI: 100%

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

Development costs are roughly \$839,314 per unit. The factors affecting this per unit cost include the project being part of a larger mixed-use/mixed-income development, high real estate costs for the area, high costs for an infill site that will require considerable excavation and shoring, as well as underground parking.

Local Reviewing Agency

The Local Reviewing Agency, the Successor Agency to the Redevelopment Agency of the City and County of San Francisco, has completed a site review of this project and strongly 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
\$3,424,279	\$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

The applicant/owner is required to complete the following sustainable building methods in accordance with the bond allocation from CDLAC and provide the applicable certifications and documentation when the TCAC placed-in-service application is submitted:

- The project commits to having at least 1 building subject to a policy developed by the owner that prohibits smoking in contiguous designated units.
- The project commits to a parking ratio equivalent of 1 parking stall or less per SRO and 1-bedroom restricted rental units, and 1.5 parking stall or less per 2-bedroom and larger restricted rental units.