CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
November 14, 2018

Heritage Apartments, located at 1325 Santa Rita Drive and 1388 East Palomar Street in Chula Vista, requested and is being recommended for a reservation of $1,823,955 in annual federal tax credits to finance the acquisition and rehabilitation of 268 units of housing serving tenants with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by Standard Property Company and is located in Senate District 40 and Assembly District 79.

Heritage Apartments is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, South Bay Community Villas (CA-2001-906). See **Resyndication and Resyndication Transfer Event** below for additional information.

Project Number CA-18-785

Project Name Heritage Apartments
Site Address: 1325 Santa Rita Drive and 1388 East Palomar Street
Chula Vista, CA 91913 County: San Diego
Census Tract: 133.10

Tax Credit Amounts	**Federal/Annual**	**State/Total**
Requested:	$1,823,955	$0
Recommended:	$1,823,955	$0

Applicant Information
Applicant: Standard Heritage Venture LP
Contact: Brian Yang
Address: 1901 Avenue of the Stars, Suite 395
Los Angeles, CA 90067
Phone: (310) 553-5711
Email: byang@standard-companies.com

General Partner(s) or Principal Owner(s): Standard Heritage Manager LP
Housing On Merit VIII LLC
General Partner Type: Joint Venture
Parent Company(ies): Standard Property Company, Inc.
Housing On Merit
Developer: Standard Property Company, Inc.
Investor/Consultant: Candeur Group
Management Agent: AMC-CA, Inc.

Project Information

Construction Type:	Acquisition & Rehabilitation
Total # Residential Buildings:	21
Total # of Units:	271
No. / % of Low Income Units:	268 100.00%
Federal Set-Aside Elected:	40%/60%
Federal Subsidy:	Tax-Exempt

Bond Information

Issuer:	California Municipal Finance Authority
Expected Date of Issuance:	January 2, 2019

Information

Housing Type:	Seniors and Large Family
Geographic Area:	San Diego County
TCAC Project Analyst:	Diane SooHoo

55-Year Use / Affordability

Aggregate Targeting Number of Units		Percentage of Affordable Units
At or Below 50% AMI:	31	12%
At or Below 60% AMI:	237	88%

Unit Mix

90	1-Bedroom Units
115	2-Bedroom Units
54	3-Bedroom Units
12	4-Bedroom Units
271	Total Units

	Unit Type & Number	**2018 Rents Targeted % of Area Median Income**	**2018 Rents Actual % of Area Median Income**	**Proposed Rent (including utilities)**
11	1 Bedroom	50%	45%	$817
33	1 Bedroom	60%	54%	$981
46	1 Bedroom	60%	60%	$1,095
12	2 Bedrooms	50%	42%	$920
50	2 Bedrooms	60%	50%	$1,104
52	2 Bedrooms	60%	60%	$1,314
5	3 Bedrooms	50%	40%	$1,022
1	3 Bedrooms	50%	50%	$1,265
15	3 Bedrooms	60%	48%	$1,227
31	3 Bedrooms	60%	60%	$1,518
2	4 Bedrooms	50%	39%	$1,103
3	4 Bedrooms	60%	47%	$1,324
7	4 Bedrooms	60%	60%	$1,693
1	2 Bedrooms	Manager’s Unit	Manager’s Unit	$1,267
2	3 Bedrooms	Manager’s Unit	Manager’s Unit	$1,460

TCAC-confirmed Projected Lifetime Rent Benefit: $157,382,940

Project Cost Summary at Application	
Land and Acquisition	$44,500,000
Construction Costs	$0
Rehabilitation Costs	$7,822,465
Construction Contingency	$818,820
Relocation	$0
Architectural/Engineering	$175,750
Const. Interest, Perm. Financing	$431,810
Legal Fees, Appraisals	$318,000
Reserves	$0
Other Costs	$543,365
Developer Fee	$6,886,035
Commercial Costs	$0
Total	**$61,496,245**

Residential

Construction Cost Per Square Foot:	$29
Per Unit Cost:	$226,923
True Cash Per Unit Cost*:	$226,923

Construction Financing

Source	Amount
JLL Capital Markets	$35,700,000
Seller Credit	$1,400,000
Existing Capital Reserves	$346,239
Cash flow from Operations	$500,000
Developer Equity	$6,886,035
Tax Credit Equity	$16,663,971

Permanent Financing

Source	Amount
JLL Capital Markets	$35,700,000
Seller Credit	$1,400,000
Existing Capital Reserves	$346,239
Cash flow from Operations	$500,000
Developer Equity	$6,587,224
Tax Credit Equity	$16,962,782
TOTAL	**$61,496,245**

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

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	$9,970,294
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	$42,822,642
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	$12,961,382
Qualified Basis (Acquisition):	$42,822,642
Applicable Rate:	3.27%
Maximum Annual Federal Credit, Rehabilitation:	$423,655
Maximum Annual Federal Credit, Acquisition:	$1,400,300
Total Maximum Annual Federal Credit:	$1,823,955
Approved Developer Fee (in Project Cost & Eligible Basis):	$6,886,035
Investor/Consultant:	Candeur Group
Federal Tax Credit Factor:	$0.93000

Except as allowed for projects basing cost on assumed third party debt, the “as if vacant” land value and the existing improvement value established at application for all projects, as well as the eligible basis amount derived from those values, shall not increase during all subsequent reviews including the placed in service review, for the purpose of determining the final award of Tax Credits. The sum of the third party debt encumbering the property may increase during subsequent reviews to reflect the actual amount.

Eligible Basis and Basis Limit

Requested Unadjusted Eligible Basis:	$52,792,935
Actual Eligible Basis:	$52,792,935
Unadjusted Threshold Basis Limit:	$85,400,652
Total Adjusted Threshold Basis Limit:	$94,794,724

Adjustments to Basis Limit

55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income and Market Rate Units are Income Targeted between 50% AMI & 36% AMI: 11%

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 meet 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 3.27% 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.

Significant Information / Additional Conditions

The project includes senior housing in combination with non-senior housing. The senior-restricted units are located in one building located at 1388 East Palomar Street and the non-senior units are in separate buildings (20 buildings) located at 1325 Santa Rita Drive. The senior building and non-senior buildings are located on adjacent, contiguous lots separated by a shared driveway.

The applicant has demonstrated the undue financial burden of full compliance and has been granted a partial waiver to the requirements of Section 10325(f)(7)(K) such that the Heritage Apartments project shall provide 10% of units meeting the Chapter 11(B) mobility standards except for the need to relocate loadbearing walls in the two-, three-, and four-bedroom units to accommodate the full five-foot diameter bathroom turning radius. The project shall continue to provide 4% of units with communications accessible features in compliance with Chapter 11(B).

The applicant will convert one of the existing low income units into a manager's unit to comply with the manager unit requirements of TCAC regulation section 10325(f)(7)(J). This results in a total of 268 low income units.

Resyndication and Resyndication Transfer Event

Prior to closing, the applicant or its assignee shall obtain TCAC's consent to assign and assume the existing Regulatory Agreement (CA-2001-906). To be eligible for a new award of tax credits, the owner must provide documentation with the Form 8609 request (the placed in service submission) that the acquisition date and the placed in service date both occurred after the existing federal 15 year compliance period was completed.

The newly resyndicated project shall continue to meet the rents and income targeting levels in the existing regulatory agreement(s) and any deeper targeting levels in the new regulatory agreement(s) for the duration of the new regulatory agreement(s). Existing households determined to be income-qualified for purposes of IRC §42 credit during the 15-year compliance period are concurrently income-qualified households for purposes of the extended use agreement. As a result, any household determined to be income qualified at the time of move-in under the existing regulatory agreement (CA-2001-906) is a qualified low-income household for the subsequent allocation (existing household eligibility is "grandfathered").

The project is a resyndication where the existing regulatory agreement requires service amenities. The project shall provide a similar or greater level of services for a period of at least 15 years under the new regulatory agreement. The project is deemed to have met this requirement based on TCAC staff's review of the commitment in the application. The services documented in the placed in service package will be reviewed by TCAC staff for compliance with this requirement at the time of the placed in service submission.

The project is a resyndication occurring concurrently with a Transfer Event with distribution of Net Project Equity. The rehabilitation scope of work shall include all of the Short Term Work in the amount of $1,542,689. In consideration of the Short Term Work requirement, the seller of the existing property has agreed to sell the property at a lower value of $45,500,000 than the appraised value of $46,600,000 and provide a seller credit of $1,400,000 against the purchase price of $45,500,000. As a result of the price reduction and seller credit, the project is allowed to receive eligible basis for the entire Short Term Work amount.

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.

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.

CDLAC Additional Conditions
The applicant/owner is required to provide the tenants with the following service amenities free of charge for a minimum of fifteen (15) years in accordance with the bond allocation from CDLAC. These services may be changed to meet the needs of the tenants upon prior approval from CDLAC and written notification to TCAC:

- After school program on-site for a minimum of 10 hours per week