CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
December 9, 2020

Markham Plaza II, located at 2010 Monterey Road in San Jose, requested and is being recommended for a reservation of $1,659,402 in annual federal tax credits to finance the acquisition and rehabilitation of 151 units of housing with rents affordable to households earning 30-35% of area median income (AMI). The project will be developed by CORE Affordable Housing LLC and is located in Senate District 15 and Assembly District 27.

Markham Plaza II is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Tully Gardens Phase II (CA-02-014). See **Resyndication and Resyndication Transfer Event** below for additional information. The project will be receiving rental assistance in the form of HUD-VASH Project-based Vouchers.

Project Number	CA-20-723	
Project Name	Markham Plaza II	
Site Address:	2010 Monterey Road	
	San Jose, CA 95112	County: Santa Clara
Census Tract:	5031.22	

Tax Credit Amounts	**Federal/Annual**	**State/Total**
Requested:	$1,659,402	$0
Recommended:	$1,659,402	$0

Applicant Information

Applicant:	Markham Plaza II, LP
Contact:	Chris Neale
Address:	470 S Market Street San Jose, CA 95113
Phone:	408-292-7841
Email:	chris@thecorecompanies.com

General Partner(s) or Principal Owner(s):	CORE Markham II, LLC EAH Markham II, LLC
General Partner Type:	Joint Venture
Parent Company(ies):	CORE Affordable Housing LLC EAH, Inc.
Developer:	CORE Affordable Housing LLC
Investor/Consultant:	Enterprise Housing Credit Investments
Management Agent:	EAH, Inc.

Project Information

Construction Type:	Acquisition & Rehabilitation
Total # Residential Buildings:	1
Total # of Units:	152
No. / % of Low Income Units:	151 100.00%
Federal Set-Aside Elected:	40%/60%
Federal Subsidy:	Tax-Exempt / HUD VASH Project-based Vouchers (20 Units - 13%) / HOME

Bond Information

Issuer:	City of San Jose
Expected Date of Issuance:	January 31, 2021

Information

Housing Type:	Non-Targeted
Geographic Area:	South and West Bay Region
TCAC Project Analyst:	Ruben Barcelo

55-Year Use / Affordability

Aggregate Targeting Number of Units		Percentage of Affordable Units
30% AMI:	76	50%
35% AMI:	75	50%

Unit Mix

149 SRO/Studio Units
3 2-Bedroom Units
152 Total Units

Unit Type & Number		2020 Rents Targeted % of Area Median Income	2020 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
30	SRO/Studio	30%	25%	$699
45	SRO/Studio	30%	25%	$699
20	SRO/Studio	35%	25%	$699
54	SRO/Studio	35%	25%	$699
1	2 Bedrooms	30%	25%	$880
1	2 Bedrooms	35%	25%	$880
1	2 Bedrooms	Manager’s Unit	Manager’s Unit	$0

Project Cost Summary at Application

Land and Acquisition	$27,301,000
Construction Costs	$0
Rehabilitation Costs	$10,625,451
Construction Hard Cost Contingency	$1,143,537
Soft Cost Contingency	$300,000
Relocation	$1,850,000
Architectural/Engineering	$609,500
Const. Interest, Perm. Financing	$1,667,642
Legal Fees	$200,000
Reserves	$1,337,023
Other Costs	$1,414,527
Developer Fee	$3,000,000
Commercial Costs	$0
Total	**$49,448,680**

Residential

Construction Cost Per Square Foot:	$165
Per Unit Cost:	$325,320
True Cash Per Unit Cost*:	$180,666

Construction Financing

Source	Amount
U.S. Bank	$19,000,000
City of San Jose-HOME Assumed	$5,324,505
Seller Carryback Tax-Exempt	$6,000,000
Seller Carryback Taxable	$13,818,967
Seller Carryback Assumed	$1,668,521
Reserves	$806,993
Deferred Costs	$1,286,745
Tax Credit Equity	$1,542,949

Permanent Financing

Source	Amount
Santa Clara County Loan	$5,900,000
City of San Jose-HOME Assumed	$5,324,505
Seller Carryback Tax-Exempt	$6,000,000
Seller Carryback Taxable	$13,818,967
Seller Carryback Assumed	$1,668,521
Reserves	$806,993
GP Equity	$200
Deferred Developer Fee	$500,000
Tax Credit Equity	$15,429,494
TOTAL	**$49,448,680**

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

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	$18,347,017
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	$27,365,000
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	$23,851,122
Qualified Basis (Acquisition):	$27,365,000
Applicable Rate:	3.24%
Maximum Annual Federal Credit, Rehabilitation:	$772,776
Maximum Annual Federal Credit, Acquisition:	$886,626
Total Maximum Annual Federal Credit:	$1,659,402
Approved Developer Fee (in Project Cost & Eligible Basis):	$3,000,000
Investor/Consultant:	Enterprise Housing Credit Investments
Federal Tax Credit Factor:	$0.92982

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:	$45,712,017
Actual Eligible Basis:	$45,712,017
Unadjusted Threshold Basis Limit:	$48,986,239
Total Adjusted Threshold Basis Limit:	$161,654,589

Adjustments to Basis Limit

Required to Pay State or Federal Prevailing Wages/Financed by labor-affiliated organization employing construction workers paid at least state or federal prevailing wages.

95% of Upper Floor Units are Elevator-Serviced.

55-Year Use/Affordability Restriction – 2% for Each 1% of Low-Income and Market Rate Units are Income Targeted at 35% AMI or Below: 200%

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 or 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 3.24% 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 proposes entering into a supportive services agreement whereby Santa Clara County will refer 30 tenants who possess tenant-based rental subsidy vouchers. Under this agreement, Santa Clara County Housing Authority (SCCHA) will provide 4 FTE case managers, to be provided by the Veterans Administration and SCCHA, that will be additional to the service amenities the project will provide.

The reservation of tax credits is contingent upon verification by HUD of the rental subsidy contract rent amounts within 180 days of the date of reservation.

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-02-014). 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. For resyndications that were originally rehabilitation and acquisition, the resyndication acquisition date cannot occur before the last rehabilitation credit year of the original credit period.

As required by the IRS, the newly resyndicated project will continue to use the originally assigned Building Identification Numbers (BINs).

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-02-014) 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 re-syndication occurring concurrently with a Transfer Event without distribution of Net Project Equity and thus is waived from setting aside a Short Term Work Capitalized Replacement Reserve that is otherwise required.

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.

State tax credit recipients are limited to cash distributions from project operations pursuant to California Revenue and Taxation Code Section 12206(d). By accepting the tax credit reservation, the applicant/owner is agreeing to comply with the statutory limitations and requirements.

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 comply with the CDLAC Resolution. At the time of the TCAC placed-in-service review, TCAC staff will verify that the project is in compliance with all applicable items of CDLAC Resolution Exhibit A.