



**CITY OF ENCINITAS
CITY COUNCIL
AGENDA REPORT
Meeting Date: January 25, 2012**

TO: Mayor and City Council

VIA: Gus Vina, City Manager
Paul Bussy, Finance Director

FROM: Patrick Murphy, Planning & Building Director
Ron Barefield, Housing Administrator

SUBJECT: Approval of \$155,534 of Housing Development Funds for the 20-unit all-affordable housing development located on Vulcan Avenue.

BACKGROUND:

On March 16, 2011, the City Council approved \$194,466 of federal HOME Investment Partnership (HOME) funds for the proposed 20-unit, all-affordable housing complex, known as the Iris Apartments, to be developed on the vacant land located on the east side of Vulcan Avenue, south of Riviera Mobilehome Park, and north of the San Dieguito Union High School maintenance facility.

Chelsea Investment Corporation (the developer) had requested \$350,000 of City funds for the development but, at the time, the only available housing funds were the HOME affordable housing funds. Subsequently, the City has received in-lieu fee payments from two developments, which provides the opportunity for Chelsea to request the balance of the funding request. In the March 16th Council report, staff had noted that if housing funds became available that they would return to City Council requesting the funding request balance.

The proposed Iris Apartments are a partnership of Shea Homes and Chelsea Investment Corporation, where Chelsea will be the developer and property manager of the complex. Shea purchased the property and will be the general contractor. The complex will receive federal housing tax credits, and therefore, in April, Shea Homes will convey the property to a tax credit equity limited partnership.

Originally, the 20-unit project was approved by the City's Planning Commission on January 22, 2004 (Case No. 02-233 TM/MUP/DR/CDP/EIA). The final map and condominium map are recorded and initial building plans were approved. As proposed, the development is a 20-unit, all-affordable complex restricted in perpetuity to households at 30 to 60 percent of area median income. The Iris Apartments will consist of twelve two-bedroom/two-bath units, seven three-bedroom/two-bath units, and one two-bedroom/two-bath unit with manager's office.

ANALYSIS:

Overview

Chelsea is a real estate company focused on the development and financing of affordable housing. The company provides financial engineering, development, asset management and property management services. Chelsea has developed and financed over 5,100 affordable units at a cost of over \$690 million. Their clients have included Black Mountain Ranch, Brookfield Homes, Centex Homes, Lennar, McMillin Homes, Pardee Homes, and Shea Homes, among others. Chelsea's corporate offices are located in Carlsbad.

Shea Homes is a real estate development company, primarily focused on residential development. Currently, in addition to its involvement with Iris Apartments, Shea Homes has four developments in process within the Leucadia community of Encinitas. Shea has an affordable housing obligation of 24 units resulting from inclusionary and density bonus requirements of those developments. On April 21, 2011, the Planning Commission approved resolution amendments to those developments to allow the affordable housing obligations to be satisfied offsite at the Iris Apartments, resulting in 17 of the affordable units being transferred to the complex. In addition to the transferred units, the Iris Apartments already had an affordable housing obligation of three units, resulting in a total of 20 affordable units at the complex. In addition, Shea Homes obligated itself to constructing an additional affordable housing unit at its Coral Cove development resulting in a total of 28 affordable units (instead of 27 units).

Staff considers the development of the Iris Apartments as a unique affordable housing opportunity for the following reasons:

- Developed and managed by a locally-based affordable housing developer
- On-site management
- Constructed by an experience developer
- Highly leveraged City funds (i.e., 4% of development cost, \$17,500 per unit)
- Affordable housing provided in perpetuity (vs. inclusionary of 55 years and density bonus of 30 years)
- Deeper affordability (i.e., 30% - 60% vs. 50% to 80%)
- Affordable units remain in same community
- Affordable units constructed and occupied ahead of market-rate units
- Affordable housing monitoring and compliance enhanced
- Community benefits from a mix of affordable homeownership and rental opportunities through the Iris Apartments and Coral Cove
- Increase affordable housing requirement from 27 to 28 units

Development Costs/Financing/Construction Schedule

The current deal structure identifies an approximate cost of \$8,370,000. The anticipated financial sources are:

- Federal Low-Income Housing Tax Credit Equity - \$4,655,940
- Land Value Contribution - \$2,300,000
- Shea Cash Contribution - \$125,000
- Permanent Loan - \$900,000

- Deferred Developer Fee/GAP - \$39,060
- City Loan - \$350,000

On December 14, 2011, Chelsea received a Preliminary Reservation Letter (i.e., award letter) from the State's Tax Credit Allocation Committee. The projected construction schedule identifies the following 2012 milestones: permit ready letter by March 26th; notice to proceed to general contractor and construction commences by April 9th; and construction completion by December 31st. These milestones are critical to receiving the federal tax credits.

The requested \$155,534 of Housing Development funds and the previously approved \$194,466 of HOME funds will be provided as a loan.

FISCAL AND STAFF IMPACTS: Funds of \$606,897 are available in the Housing Development Fund and there are no additional staff costs.

RECOMMENDATION:

Approve \$155,534 of Housing Development Funds for the Iris Apartments