U.S. Department of Housing and Urban Development
Office of Policy Development and Research

Nonprofit Housing: Costs and Funding

Final Report

Volume II–Case Studies

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Prepared for:
U.S. Department of Housing and Urban Development
Office of Policy Development and Research

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APPENDIX E

CASE STUDY NARRATIVES

This Appendix includes individual case study narratives for the fifteen nonprofit housing development projects examined as part of this research.

Two exhibits are included at the end of each case study. For each of the case studies, **Exhibit 1 - Sources and Uses of Cash and Non-Cash Resources** summarizes the financing, subsidies, contributions and donations received by the project, as well as the out-of-pocket and "contributed" costs for the development effort.

Exhibit 2 - Summary of Financial Data Analysis for each case study examines the financing of the project in terms of percentage of cash equity, debt funds, non-cash resources, public sources and private sources. Project "uses" are presented in terms of percentage of total expenses represented by out-of-pocket costs, versus costs covered by subsidies and donations, and costs attributable to each of the twelve major line item categories incorporated in the cost framework/data collection instrument. The cumulative cost for development including the value of subsidies, contributions and other donations—which is termed the **"full development cost"**—was "normalized" to adjust for differences in location and year completed. A normalized full development cost is shown both with and without land expenses, and from these figures normalized costs for a standard two-bedroom unit for each project was derived.

For each case study, Exhibit 2 also presents data on initial rent/carrying cost levels, rent levels for a standardized two-bedroom unit, rent levels as a percentage of the prevailing FMR and median income, and impact on rent if the value of development period subsidies/contributions had been conventionally financed. For projects involving allocations of Section 8 rental assistance, an additional calculation is included showing the impact on the rent paid by tenants if this rental subsidy also was not available. In addition, Exhibit 2 shows the net present value of the development subsidies and contributions received.

The case studies are organized by metropolitan area, as follows:

Boston MSA

Langham Court Cooperative
Washington/Columbia Apartments (Granite Properties - Phase I)
La Concha Apartments

Washington, D.C. MSA

Dorsey R. Moore Cooperative
Florian Gardens Cooperative
Renaissance Apartments

Chicago MSA

Washington Boulevard Apartments
Plaza on the Park II Apartments
Borinquen Apartments

Kansas City MSA

Blue Hills Take Part I
Signal Hills Townhomes
Quality Heights Homes

San Francisco/Oakland MSA

Baywood Apartments
Maria Alicia Apartments
Frank Mar Community Housing

LANGHAM COURT COOPERATIVE
Boston, Massachusetts

1. Overview

The Langham Court Cooperative is a newly-constructed 84-unit project located in the South End of Boston. The South End district of Boston traditionally has been a working class and lower income neighborhood which, in recent years, has been the target for significant urban renewal and neighborhood revitalization efforts. Although a considerable amount of gentrification has taken place in the South End as a result of this urban renewal, a significant quantity of affordable housing has been preserved or created in the neighborhood through the work of community activists.

The Langham Court development consists of one building with three parts, two of which are four stories tall and the other is five stories. The development includes eighty-four units, and has sixty-five percent of the units (55 of the 84 units) set-aside for households with incomes less than eighty percent of median (with a subset of twenty-eight of these lower income units allocated for households with tenant-based rental assistance)

The Langham Court pre-development effort began in 1987, the site was acquired (as a donation from the city) in 1989, and construction ran from March 1990 through September 1991 Sources for construction financing included a loan from the state Housing Finance Agency, loans and grants from the city and state, and Low Income Housing Tax Credit syndication proceeds. The closing on permanent financing for the project has not yet taken place, however.

2. Sponsor and Development Team

The nonprofit sponsor for the Langham Court project was the Four Corners Development Corporation (4CDC), which was formed in 1987 in response to the Boston Redevelopment Authority's (BRA) solicitation of proposals for the redevelopment of this city-owned site. Although this was 4CDC's first major development effort, the majority of the responsibility for developing, syndicating, and (now) managing the project lies with The Community Builders, Inc, who were retained as development consultant. The Community Builders (previously known as Greater Boston Community Development, Inc) is a nonprofit organization which has developed thousands of units of affordable housing. Originally concentrating on Greater Boston, as its earlier name implies, Community Builders has in more recent years expanded its focus to all of the Northeast and is now moving into a national market. The Community Builders frequently functions as development consultant to less experienced nonprofits to facilitate affordable housing projects.

Other members of the Langham development team included the architect for the project and the general contractor. Both were for-profit entities, and selected through a competitive procurement process. Legal counsel was provided by a prestigious Boston law firm, who has

rendered similar services for many of the affordable housing projects carried out by area nonprofits and the Boston Housing Partnership. The Four Corners Development Corporation also used another nonprofit CDC, the United South End/Lower Roxbury Development Corporation, as a financial conduit for receipt of a state grant to support the cooperative's formation and operations.

3. Pre-development Period

Planning for the Langham project initially began in the spring of 1987, in response to the BRA's solicitation for proposals for redevelopment of the parcel under the agency's South End Neighborhood Housing Initiative The BRA originally had acquired the land from HUD in portions in 1973 and 1979 through Tax Title for non-payment of taxes.

The Langham project was initially conceived of as two separate buildings by its sponsors: one for largely market rate condominiums and a second for largely affordable units organized into a cooperative, with the former to serve as a source of subsidy for the latter. However, the Massachusetts Housing Finance Agency (MHFA), which was anticipated to be the principal source of construction and permanent financing for the project, was reluctant to deal with condominiums at that time and approval of the project was delayed. The MHFA's reluctance proved to be provident, however, when the local condominium market collapsed over the next several years. In 1989, 4CDC and The Community Builders reconsidered the design approach and devised the current configuration, which involves a single building with a combination of stacked duplexes and flats which are all part of the cooperative.

Pre-development costs for the project were covered initially by low-interest loans from the state's Community Economic Development Assistance Corporation (a $109,000 loan at zero percent interest), the Episcopal City Mission (a $60,000 loan at approximately eight percent interest), and The Community Builders Charitable Trust (a $70,000 loan at approximately eight percent interest). These loans were taken out at initial closing. The project also benefitted from a recoverable pre-development grant of $337,262 to 4CDC from the Boston Redevelopment Authority, which transferred ownership of the site in December 1989 for one dollar. The pre-development costs paid with the BRA grant eventually amounted to $217,308 for preliminary architect/engineering work, environmental assessment, surveys, permits, and a portion of the financing fees. The balance of the BRA grant was rolled into a loan for construction and permanent financing.

4. Construction Financing

As previously indicated, negotiations over construction financing of the development had begun with MHFA in 1987. Ultimately, the construction involved **debt financing** from MHFA, the state's Housing Innovation Fund program, the Boston Redevelopment Authority, the city of Boston's Build Loan Program (using CDBG funds), and **equity financing** through coop member shares and LIHTC syndication proceeds, with a bridge loan from a private bank to cover expenses prior to syndication installments. The following sections provide some details on each of these funding sources:

- In December 1989, the project obtained a commitment from MHFA for up to $9,994,500 in construction and permanent financing. The project also obtained construction loan financing from the City of Boston Public Facilities Department's (PFD) Build Loan Program for $5,200,000 (in CDBG float funds at 1% interest), and $1,970,738 in additional loan funding from the BRA through its Linkage program. This latter amount reflected the balance of the BRA's $2,308,000 grant/loan package at zero percent interest to the project.

- In March 1990, the construction loan from the MHFA was finalized for the amount of $4,794,500, which was the difference between the initial MHFA loan commitment and the amount of the Build Loan. The sponsors chose to take advantage of the Build Loan as a less expensive source of financing for the project than the 8.3% interest rate being charged by the MHFA. The MHFA loan, which had an initial term of sixteen months, also required owner's cash equity of at least 2% of the loan, a construction letter of credit equal to 6% of the loan, and any syndication proceeds to be at least equal to 2% of the loan at the time of occupancy. The MHFA construction loan also was expected to "roll over" and to become a 35-year permanent loan.

- The project also received a $500,000 loan from the state Housing Innovations Fund (HIF) which was advanced during construction to assist with establishment and operation of the cooperative, and which will remain in the project as part of the permanent financing. Although written as a twenty-year loan at ten percent interest, the HIF loan does not involve monthly debt service and may be forgiven over time. These funds would only be recaptured if the grant conditions are violated or affordability of the units is not maintained.

- "Equity" in the project came from several sources. According to the development budget established by MHFA, one source of construction period equity was $3,391,468 in "contributed" developer's fees and overhead. In addition, for the purposes of syndicating the project for Low Income Housing Tax Credits, a limited partnership (the Langham Court Limited Partnership) was created in 1989. A for-profit corporation (the Langham Four Corners Corporation) was organized in order to act as the partnership's "sponsor general partner" during the development period; the 4CDC owns 75% of the stock of the general partner, with the other 25% of the Langham Four Corners Corporation's stock controlled by the Episcopal City Mission. As a mechanism to empower resident control in the management of the completed project, 4CDC also established the Langham Court Cooperative Corporation (under Chapter 157B of the Massachusetts General laws) as the "cooperative general partner," to replace the Langham Four Corners Corporation as majority general partner following development. However, even when the Langham Court Cooperative has replaced the development corporation, it will still only own 1/2 of 1% of the property in the project, and for federal tax purposes the project technically will not be viewed as a "cooperative", which would obviate the property's continued qualifications for tax credits.

- The limited partners in the Langham Court Limited Partnership are the Prudential Insurance Company and the Shawmut Bank, who provided investment capital ("syndication proceeds") in return for the benefit of the tax credits associated with the project. The syndication was estimated to generate proceeds of $4,275,000 over five years, of which $888,546 was initially budgeted as equity for the development phase.

- To cover development expense items prior to the receipt of syndication proceeds (including the letter of credit and deposits required by MHFA), the project had to secure a combination bridge loan and letter of credit from the Blackstone Bank amounting to $2,189,670. As security, the project had to assign its future syndication proceeds to the bank, and to agree to deposit its developer's fees with the bank, until the bridge loan was repaid.

5. Construction Period

Construction began in March 1990, with an initial estimate of mortgageable development costs of $17,126,292. One of the reasons why the project experienced high construction costs was the fact that the parcel contained contaminated soils from home heating oil that had leeched into the ground at various locations. The state's Chapter 21E mitigation procedures required monitoring of every 25 cubic feet of soil; one consequence of these procedures was that the soil inspection was as expensive as the actual removal.

A second factor contributing to construction costs was the result of the parcel being located in a historic district. The local landmarks commission required the treatment of the development to be consistent with the surrounding Victorian-era buildings. This required more expensive exterior materials and inefficient layout of the site. The BRA design guidelines also mandated off-street parking, which forced the developers to put the parking under the building, adding further to site inefficiencies and costs.

As part of the city of Boston's development policies, the project also was required to attempt to target 30% of the subcontracted work to minority-owned firms and 5% to women-owned businesses, and to have 50% of the construction positions filled by Boston residents, 30% by minorities, and 10% by women. The Langham project was able to achieve the objectives for minorities, but not for women and Boston residents.

For its part, in addition to the donation of land and provision of low-interest construction financing, the city deferred the fee on the rental of the adjoining streets and sidewalks for construction scaffolding, saving the project an estimated $60,000. In conjunction with the project, the city also completed long-awaited repairs to some of the sidewalks in the immediate neighborhood.

Over the course of construction, there were approximately fifty change orders, some of which were for credits. In total, change orders amounted to an estimated $300,000 of more than $11 million in out-of-pocket construction costs, and fell within the project's contingency allowance. Construction was completed in eighteen months, which was approximately two

months longer than planned. An occupancy permit was obtained from the city in August, and occupancy approval granted by MHFA on September 18, 1991. The cost certification statement to MHFA showed total mortgageable development costs of $17,353,454, which included $3,391,468 in "phantom" developer's fee and 5% overhead.

6. Permanent Financing

Due in part to the slow rent-up, there has not yet been a closing on the permanent mortgage for the project, which is anticipated to be a 35-year mortgage from MHFA for $9,994,500. The equity in the permanent financing package includes $131,525 in cooperative member shares. At the time of lease, prospective tenants buy a share in the cooperative and become a cooperator. The price of a share ranges from $1600 to $2800, depending on the size of the unit. Market rate tenants (in 29 of the 84 units) are expected to pay the entire amount of the share up-front. Low and moderate income tenants are expected to make a downpayment of between $360 and $1680, with the balance paid in monthly installments.

7. Lease-up and Occupancy

The completed development is being managed by The Community Builders, who will receive a property management fee of $46,667 at full occupancy. The initial monthly carrying charge ranged from $615 - $1106 for the twenty-eight units to be occupied by very low income households (with Section 8 or state rental assistance), $466 - $941 for the twenty-seven units to be occupied by low/moderate income households, and $1000 - $1425 for the twenty-nine market rate units As of April 1992, the project had only been able to achieve 50% occupancy, with all categories of units being slow to rent-up due to the soft local housing market. Nonetheless, the sponsors have been reluctant to employ extraordinary measures to try to market the units, because they want prospective tenants who understand and are committed to the cooperative model to "self-select" themselves. Despite this slow rent-up, the project had been able to avoid showing an operating loss through the interest savings generated by the extension of the Build Loan (which is offsetting an estimated $40,000 per month in debt service).

Langham Court also has been awarded an operating subsidy loan under MHFA's State Housing Assistance for Rental Production (SHARP) program for a total of $4,000,264. The term of this loan is thirty-eight years, and the funds are made available in monthly installments over the first fifteen years. The first year SHARP subsidy is for $338,816 (equal to 125% of the program's base amount for the unit sizes involved), with the annual amount decreasing to $88,000 by year fifteen. During the first fifteen years, the loan accrues interest at 5-8%, and beginning in year sixteen, the balance incurs interest at 0.1%. However, the development consultant indicates that, like some of the other funding realized by Langham Court, the SHARP loan in all probability would be forgiven. The loan remains in effect as a lever for accountability, with repayment required only in the event of violation of the project's affordability.

8. On-going Operations

One thing which may complicate the project's tenant selection and finances in the future is the fact that although one-third of the units are set-aside for households with federal or state rental assistance, Langham Court does not have any project-based Section 8 assigned to it. Therefore, the development must be able to attract and retain sufficient numbers of prospective residents who will bring such tenant-based rental assistance with them if necessary This is particularly critical since the monthly carrying costs (contract rents) for the "rental assistance" units were established at market rents and these are higher than those for equivalent-sized "moderate income" units, and the operating budget projections are based on the assumption that these additional revenues will be realized.

A potential source of on-going operating subsidy for Langham Court is future syndication proceeds. As mentioned previously, the sale of the limited partnership's investor interests is expected to yield $4,275,000 in syndication proceeds through 1995. Of this amount, $1,237,404 was shown in the cost certification to MHFA as having been applied to mortgageable development costs. An additional $868,000 is estimated to have been expended on or obligated for various non-mortgageable development costs (including syndication fees, bridge loan finance fees and interest, interest on seed loans, and limited partnership overhead and accounting).

The project sponsors have a number of future uses planned for the remaining syndication proceed balance of approximately $2.17 million. Among the intended uses are on-going investor servicing ($3500 per year), maintenance of the net worth account (10% of future proceeds), future debt service on the bridge loan, $250,000 into a project reserve account, $127,000 for general partner costs, and annual partnership legal and accounting expenses (approximately $2000 per year).

As mentioned previously, the future syndication proceeds for Langham Court were assigned to the Blackstone Bank as collateral for its bridge loan and letter of credit. Although it seems clear that the bank over-collateralized its combination loan and letter of credit to the Langham Court project, in its other dealings this institution apparently was not so careful. During 1991, the bank failed and was taken over by the FDIC. The FDIC has repudiated the letter of credit (that is, FDIC will not honor requests by MHFA for draws against it), but is refusing to release the partnership's deposits or the assignment of future syndication proceeds. By terminating the $600,000 letter of credit for cost overruns and operating deficits, the FDIC puts Langham Court in technical default with MHFA relative to this requirement of its loan. Negotiations are continuing among the parties to resolve this impasse. However, because the FDIC is reluctant to give up its first position, an alternate provider of a letter of credit would be required to accept a subordinate position.

In addition to the $2,713,174 "paper" developer's fee credited by MHFA as an equity contribution, the cost certification to MHFA reported that, in connection with the project, 4CDC had earned an additional "development fee" of $1,475,000, which was not included in the schedule of mortgageable development costs. The certification indicated that $139,484 of this amount had been paid to 4CDC, with the balance remaining in the form of a 15-year loan to the partnership at a ten percent interest rate. According to the development consultant, a portion

of these development fees will get paid as part of each syndication installment over five years However, much of these funds are budgeted for other project related purposes, and only $650,000 may be actually realized by the nonprofit sponsor over the life of the partnership as "unobligated" developer's fees.

Although the nonprofit may hope to realize some additional on-going revenue from installment payments on this loan, it appears that one purpose of the additional indebtedness in the form of the deferred developer's fee may be to position 4CDC to be able to control the property's future use as affordable housing when the limited partnership dissolves in fifteen years. It appears to be a common practice in Tax Credit projects for the nonprofit sponsor to establish a large claim in order to have an equity claim with which to purchase projects from the limited partners at the end of the partnership.

9. Other Activities by Nonprofit Sponsor

Although 4CDC was formed in response to the opportunity to undertake the Langham Court project, the organization attempts to increase its positive influence in the neighborhood through a variety of other activities. Members of 4CDC participate in neighborhood clean-up and crime prevention campaigns (see attached newspaper article). They also act as advocates for the tenants of a Boston Housing Authority elderly development in the area, and hold social events for those residents. 4CDC members are also involved in master planning efforts for the South End, and the organization has funded a staff person to explore the possibility of creating more job training and employment initiatives in the neighborhood. The leaders of 4CDC are very active in neighborhood and city-wide political organizations.

10. Development Costs/Analysis of Data

Summary financial data for this project are presented in Exhibits 1 and 2. Several assumptions have been made in the calculations. The numbers reflect assumed financing at permanent closing, although the closing has not yet occurred. Also, the figure for developer's overhead and $2,713,174 of developer's fee represent "paper" equity/expense line items in the development budget established by MHFA. 4CDC is assumed to contribute at least $59,461 of its deferred developer's fee of $1,474,000 (to be paid from syndication proceeds) due to competing demands on future syndication installments. Finally, the figure for reserves includes a $77,500 deposit with Blackstone Bank and a $250,000 reserve to be established with syndication proceeds.

Out-of-pocket financing charges include $969,179 in mortgageable expenses as well as the following non-mortgageable expenses: $40,000 Bridge loan finance fee, $8,000 interest on seed loans, and $570,000 Bridge loan interest (through 1994). The total of non-mortgageable expenses is $618,000.

Additional non-cash sources for the project included sidewalk rental contributed by the city ($60,000), and various interest subsidy associated with financing. The financing subsidies

result from the below market interest rates charged in connection with the MHFA, Build and BRA loans plus the waiver of loan origination fees for the latter two sources and the Housing Innovations Fund loan.

11. Summary and Sponsor Recommendations

There are several interesting dimensions to this project:

- First, although the nonprofit "sponsor" was technically the Four Corners Development Corporation, it was The Community Builders (another nonprofit serving as development consultant) which played a critical role in developing this project. According to the development consultant, the nonprofit sponsor conceived and initiated the project, set the development goals, and made all major project decisions. The development consultant, however, was responsible for the day-to-day technical details in carrying out the project.

  The other case studies suggest that it may be very common for a "novice" nonprofit interested in housing development to work with an experienced for-profit or nonprofit developer in connection with its first few projects as a way to acquire expertise while minimizing risk. With Langham Court, however, it appears that the 4CDC was not directly enough involved in the day-to-day technical details to have acquired sufficient expertise from this experience to be able to undertake development independently in the future. The 4CDC feels that development opportunities in its catchment area of the South End are limited. In this instance, the objective was simply to get the development built, rather than to create long-term development capacity on the part of the nonprofit sponsor.

- Another interesting feature is the hybrid rental project/cooperative status of the project. Although for federal tax (and Tax Credit) purposes this project is considered a rental development owned by a private for-profit, tenants are required to acquire a share in the cooperative with their lease. Even after the Langham Court Cooperative Corporation assumes the general partner responsibility from Langham Four Corners Corporation, however, the coop members collectively will still own less than 1% of the property. Until such time as they are bought out, the limited partners own 99 percent of the property. Despite this minority ownership interest, the cooperative will nonetheless control the major decisions about the operations, finances, and management of the housing because it will be the sole managing general partner of the partnership. The sponsors also felt it was important to make the project resemble homeownership in order to create a sense of empowerment among residents. The development consultant admitted that if one wasn't so concerned about trying to make the project look like homeownership to tenants, it would have been less complicated to structure the project with a resident-owned general partner. However, while this alternate approach also would have provided some degree of substantive control by tenants, the sponsor felt that it would have been harder for tenants initially to understand their authority and responsibility.

- The result of building a cooperative model on top of the Tax Credit/syndication approach, however, was a highly complex organizational structure necessitating the creation of a limited partnership and two general partners for the partnership (the for-profit development general partner and the cooperative general partner), one of which was a subsidiary of the nonprofit sponsor. This structure added to the legal and transaction workload (and costs) throughout the development process, as property, grants, and loans were transferred among these entities.

- As a novice nonprofit with no appreciable assets, 4CDC benefitted greatly from the availability of state and local sources of funds as advances to cover initial pre-development costs. Low interest loans were made available by the state Community Economic Development Assistance Corporation, the Episcopal City Mission, and even from the development consultant's charitable trust. When the initial feasibility of the project was demonstrated, 4CDC also was able to obtain a grant/loan package for further pre-development/development expenses from the Boston Redevelopment Authority. Without the up-front assistance from these various sources, the project would not have been able to move forward.

- The lack of assets also limited the options for sources of equity which the sponsor could put into the project. As with a number of the cases we have examined under this task order, the decision was made to pursue Tax Credit syndication to generate proceeds for equity. Although perhaps the most reasonable available option, this approach had several problematic implications. First, as alluded to above, the complexity of this approach significantly increases the legal and transaction costs involved. Second, because the syndication proceeds come in increments over time, the sponsor/partnership was required to secure a bridge loan and letter of credit to cover its short term cash needs and the equity requirements of the construction loan. Not only did the conditions for this bridge loan/letter of credit package appear to be unfavorable (in terms of the collateral requirements but when the lending institution failed and was taken over by FDIC, the project was at risk of technical default over the loss of its letter of credit, although it has never been formally declared in default. Finally, though viewed as a capital contribution to the development, with the majority of the syndication proceeds scheduled to come in following completion of construction, the development documents did not fully address how all the proceeds would be utilized.

- One characteristic of this case was the fact that the definition of what constituted the development's costs and resources varied dramatically according to the entity viewing the project. For example, there were a number of non-mortgageable items (such as bridge loan interest and syndication fees) which the state Housing Finance Agency did not include in their cost analysis of the project, even though these represented actual costs to the development. The HFA also treated any funding other than its own construction or permanent loans as "equity", even where these funds were actually loans from another source as opposed to outright grants to the owners or cash infusions by the owners. The documents associated

with any particular funding source, therefore, only provided a partial picture of the finances of the project

- Another noteworthy aspect of this case was that the state HFA required the sponsors to show developer's fees and overhead **both** as "equity" and as off-setting development expenses. The effect, as has been done in the past with "builder's profit and risk allowance", was to create the impression of a lower loan-to-value ratio. However, it also meant that any real development fees or overhead for the sponsors could only be realized through future syndication proceeds, provided that these funds were accessible and there were no competing demands at the time. In the case of Langham Court, because of the lead role which The Community Builders played (and was compensated for) as development consultant, actual payment to 4CDC for development fees and overhead might be considered somewhat less critical than if 4CDC had developed the project on its own. Such fees, however, can be an important source of operating revenue for nonprofits between development projects, or as funding for pre-development activities for subsequent projects.

EXHIBIT 1

Sources and Uses of Cash and Non-Cash Resources

Langham Court Cooperative

I. Sources of Funds[1]	Cash	Non-Cash	Total
1 Syndication Proceeds	$4,275,000 [2]	$0	$4,275,000
2 Coop Share	$131,525	$0	$131,525
3 MHFA	$9,994,500	$412,130 [3]	$10,406,630
4 Housing Innovations Fund	$500,000	$5,000 [4]	$505,000
5 Linkage Payments/BRA	$2,308,000	$196,180 [5]	$2,504,180
6 Developer's Overhead	$0	$678,294 [6]	$678,294
7 Developer's Fee	$0	$2,772,635 [6]	$2,772,635
8 City of Boston – Sidewalk Rental	$0	$60,000	$60,000
9 Donated Land	$0	$898,500 [7]	$898,500
10			$0
11			$0
12			$0
13			$0
14			$0
15			$0
TOTAL	$17,209,025	$5,022,739	$22,231,764

II. Uses of Funds	Out-of-Pocket	Non-Cash Contribution	Total
Planning and Design	$760,069	$0	$760,069
Acquisition	$0	$898,500	$898,500
Finance/Carrying Charges	$1,587,179 [8]	$613,310	$2,200,489
Relocation	$0	$0	$0
Construction	$11,485,198	$60,000	$11,545,198
Real Estate Taxes	$64,931	$0	$64,931
Marketing	$84,824	$0	$84,824
Reserves	$327,500 [9]	$0	$327,500
Legal and Organization (including Development Consultants)	$577,785	$0	$577,785
Developer's Overhead/Staff	$0	$678,294	$678,294
Developer's Fee	$1,414,539	$2,772,635 [10]	$4,187,174
Syndication Costs	$887,000	$0	$887,000
TOTAL	$17,209,025	$5,022,739	$22,231,764

III. Contributions	Cash	Non-Cash	Total
TOTAL	$0	$5,022,739	$5,022,739

Notes
1. Assumed financing at permanent closing, although it has not yet occurred
2. Assumes no default on Blackstone Bank/FDIC loan
3. 6,200,000*9 0%*18/12*0 5 + 4,794,500*1 7%*18/12*0 5
4. 500,000*1 0%
5. 2,308,000*1 0% + 2,308,000*10 0%*18/12*0 5
6. Developer's overhead and $2,713,174 of developer's fee represent "paper" equity/expense line items in the development budget established by the MHFA
7. Based on Boston's 1990 assessment
8. $969,179 (Mortgageable expenses) + $618,000 (Non-mortgageable expenses) = $1,587,179
9. $77,500 deposit at Blackstone Bank + $250,000 reserve to be established from syndication proceeds
10. Nominal Expected Rate (6 0%) for Combined Developer's Fee, Overhead, and Staff Costs as a function of Total Development Costs net of these costs is lower and not calculated See Note 6

EXHIBIT 2

Summary of Financial Data Analysis

Langham Court Cooperative

		%
CASH EQUITY	$4,406,525	19.8%
DEBT FUNDS	$12,802,500	57.6%
NON–CASH RESOURCES	$5,022,739	22.6%
TOTAL RESOURCES	$22,231,764	100.0%
Percent Public Resources	$14,374,310	64.7%
Percent Private Resources	$7,857,454	35.3%
OUT–OF–POCKET COSTS	$17,209,025	77.4%
VALUE OF SUBSIDIES AND DONATIONS	$5,022,739	22.6%
FULL COST (Including Subsidies and Donations)	$22,231,764	100.0%

COSTS BY CATEGORY		%
Planning and Design	$780,069	3.5%
Acquisition	$898,500	4.0%
Finance/Carrying Charges	$2,200,489	9.9%
Relocation	$0	0.0%
Construction	$11,545,198	51.9%
Real Estate Taxes	$64,931	0.3%
Marketing	$84,824	0.4%
Reserves	$327,500	1.5%
Legal and Organization (including Development Consultants)	$577,785	2.6%
Developer's Overhead/Staff	$678,294	3.1%
Developer's Fee	$4,187,174	18.8%
Syndication Costs	$887,000	4.0%
TOTAL	$22,231,764	100.0%
LAND COST ESTIMATED	$898,500	
TOTAL LESS LAND COSTS	$21,333,264	

	Including Land	**Without Land**
Normalized Full Cost (Location and Year)	$18,015,395	$17,287,300
Normalized Standard Unit Cost	$232,855	$223,445
Initial Rent	$878	
Initial Rent as a Percent of FMR	103.9%	
Initial Standardized Rent	$953	
Initial Standardized Rent as a Percent of Median Income	22.8%	
Affordability Level	75.9%	
Required Rent if Fully Market–Financed	$2,235	
Percentage Increase Required Over Actual	154.7%	
Percentage Increase Required Over Tenant Payment	154.7%	
Present Value of Subsidies and Donations	$6,812,544	

WORKSHEET

Langham Court Cooperative

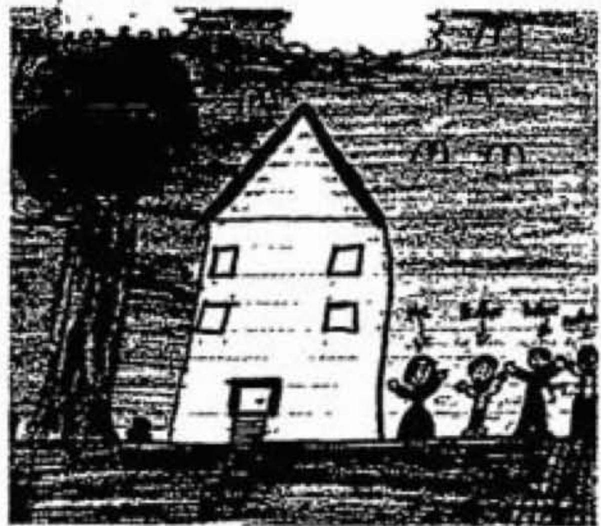
	with land	without land
1. Normalized Full Cost		
a Full Cost	$22,231,764	$21,333,264
b Time Factor	1	1
c Location Factor	0 81	0 81
d a*b*c	$18,015,395	$17,287,300
2. Number of Standard Units		
a Total Square Feet	65,298	
b a/844	77 37	
3. Normalized Standard Unit Cost		
a 1d/2b	$232,855	$223,445
4 InitialRent as a Percent of FMR		
a Initial Rent (wgted by avg unit size)	$878	
b FMR	$845	
c a/b	103 9%	
5 Initial Standardized Rent as % of Mean		
a Actual Units	84	
b Actual Units/2b	1 09	
c b*Initial Rent (=Standard Rent)	$953	
d Median Income	$50,200	
e c/(Median Income/12)	22 8%	
6. Affordability Level		
a Initial Standard Rent (5c)	$953	
b (a/ 30)*12	$38,109	
c b/Median Income	75 9%	
7. Required Rent if Financed		
a Full Development Cost	$22,231,764	
b Equity	$4,406,525	
c a−b=principal	$17,825,239	
d Debt Service at Market	$1,862	
e Monthly Operating Cost + Reserve	$373	
f d+e=Required Rent	$2,235	
g Percent Increase Required	154 7%	
h Average Tenant Payment	$878	
i Percent Increase Required	154 7%	
8. PV of Subsidies and Donations		
a Grants and Cash Contributions	$0	
b Non−Cash Contributions	$5,022,739	
c Diff of PV of Actual & Market Loan	$1,789,805	
d a+b+c	$6,812,544	

Lots & Blocks

MATT CARROLL AND RICHARD KINDLEBERGER

▶ Home, sweet home: Living in the Langham Court development in Boston's South End, has proved downright inspirational for 10-year-old Blanca Hernandez. Her entry in a coloring and essay contest on "What my home means to me" was named the winner in a field of 150 contestants from Massachusetts and 16 other states. Living in her new neighborhood means "I can play outside and I can sleep without worry," she wrote. The contest was sponsored by the National Council of State Housing Agencies to help push for extending government programs supporting low-income housing.

* * *



Blanca Hernandez: "I specially like to live in Langham Court because where I used to live it was a bad neighborhood and drugs everywhere. Here I really don't see no drugs and it's a good neighborhood and I can play outside and I can sleep without worry. Thank you very much for giving me a nice place to live."

GRANITE PROPERTIES - WASHINGTON/COLUMBIA (PHASE I)
Boston, Massachusetts

1. Overview

The Washington/Columbia Granite Properties (Phase I) is a 151-unit substantial rehabilitation project located in the Dorchester neighborhood of Boston. The project consists of eleven buildings -- three 3-story structures and eight 4-story structures. All the buildings have solid brick exterior walls and received upgraded electrical, plumbing, and gas heating systems as part of the rehabilitation work. One hundred percent of the 151 units are reserved for very low income or low income households, and all have project-based Section 8 vouchers allocated to them

Dorchester is the largest of Boston's neighborhood districts. Once largely populated by Irish immigrants and their descendants, over the last several decades the district has become much more multi-cultural, and includes large numbers of black, Hispanic and, more recently, Asian and Haitian households

Washington/Columbia (Phase I) was undertaken by the Codman Square Housing Development Corporation (CSHDC), in conjunction with the Boston Housing Partnership. The property was conveyed to CSHDC by HUD in November of 1988 Rehabilitation began on the buildings on a staggered basis in November and was scheduled to last for twelve months. However, the discovery during construction of additional deficit conditions requiring attention (inadequate wiring and plumbing, extensive lead paint) delayed the completion of rehabilitation until February 1990. By July of 1990 the project had achieved 95 percent occupancy.

The Washington/Columbia Granite Properties (Phase I) utilized a construction loan and a HUD co-insured permanent mortgage from the Massachusetts Housing Finance Agency (MHFA), linkage funds from the City of Boston's Neighborhood Housing Trust, and Tax Credit syndication, the proceeds of which were used in part to cover the construction cost overruns. The Codman Square Housing Development Corporation also was the beneficiary of core funding for operational support from the Boston Neighborhood Development Support Collaborative.

2. Sponsor and Development Team

The Codman Square Housing Development Corporation was incorporated in 1981. In the eleven years since its establishment the CSHDC has undertaken ten residential development projects in the Codman Square area (including Washington/Columbia Phase II, which is on-going). In its first five years, the nonprofit completed approximately 200 units of housing, including a 58-unit and a 80-unit project. In the last five years, the CSHDC has completed more than 300 additional units. The CSHDC's housing is targeted to very low income and low income families, the elderly, and persons with disabilities, including persons who are HIV+. In connection with one of its projects (Lithgow Apartments), CSHDC also developed 13,000

square feet of office space and 12,000 square feet of retail space, its first commercial/economic development venture.

For the Washington/Columbia Granite Properties (Phase I) effort, CSHDC was joined on the development team by a development consultant, an architect, a general contractor, and a large Boston law firm as legal counsel The development consultant, a minority-owned firm, had a long-standing relationship with the CSHDC staff and also with the architect. The general contractor was selected through a competitive procurement based on the lowest bid and previous experience working with the Massachusetts Housing Finance Agency (having built or consulted on 20 MHFA developments totalling 2074 units over the previous ten years). The law firm had served as CSHDC's corporation counsel since the nonprofit's incorporation. In fact, a member of the law firm is on the nonprofit's board of directors, and provides general legal counsel to the organization on a pro-bono basis.

For Tax Credit syndication of the project, a limited partnership was organized -- Washington/Columbia Limited Partnership. A for-profit subsidiary of CSHDC, Washington/Columbia Apartments, Inc., was also formed to act as the general partner of the limited partnership (this is one of CSHDC's eight wholly-owned subsidiaries). The limited partner shares in the project were acquired by BHP II Limited Partnership, which had been established by the Boston Housing Partnership.

3. Pre-development Period

The Washington/Columbia buildings were part of a large inventory of HUD-foreclosed properties in Boston called "the Granites", named after their original developer. Although rehabilitated in the late 1960's, over the years these buildings had been allowed to deteriorate. Even after HUD-foreclosure, their decline continued. Partly as a result of the failure of its management agent to properly maintain the structures, HUD entered into negotiations with the Boston Housing Partnership (BHP) to transfer title of a large allotment of the Granite properties to a group of community-based nonprofit organizations for redevelopment. The state Housing Finance Agency also pledged approximately $57,000,000 in construction and permanent financing for the redevelopment of this portion of the Granites.

The BHP was an outgrowth of the Massachusetts Housing Partnership, which had been established under the state Executive Office of Communities and Development in 1985 to encourage the formation of local partnerships to promote the availability of affordable housing in their communities. The BHP is made up of public, private, civic, and nonprofit group members, and assumed the role of facilitator for affordable housing projects by identifying financing and advocating for the development of policies and programs to foster such efforts.

After obtaining HUD's agreement to convey the Granite properties, BHP identified seven CDCs to undertake the redevelopment effort, with each receiving an allocation of properties according to their service territory. During 1987, CSHDC reached an agreement in principle with HUD that the nonprofit would rehabilitate 322 of these units in Dorchester. Based on this CSHDC entered into an agreement with the architect in March 1987, and work proceeded on developing the initial specifications for the renovation work.

Initially, CSHDC planned to redevelop all of the 322 units as a single project. HUD had concerns about the capacity of the nonprofit, however, and shortly before the date for signing the contract for sale on the properties, directed CSHDC to structure the effort as two phases. Phase I was to involve 151 units, and on August 11, 1988 HUD executed the contract for sale with CSHDC for these units. Although the properties were to be transferred to CSHDC for one dollar, one of the conditions of the sale was that the property carried a "deferred purchase price" of $10,172,706. In the event that the property was sold or converted to another use within thirty years of the closing, the nonprofit could be held liable for a substantial portion of the deferred purchase price. It is worth noting that the City of Boston set the 1988 assessment (at 100% valuation) for these properties at less than half that figure and a representative of the CSHDC noted that, because of their condition, the actual market value of the properties may have been closer to $1,000,000.

With HUD's approval, CSHDC assigned its interests in the contract of sale to the Washington/Columbia Limited Partnership, and on November 10, 1988, the deed for the eleven buildings was formally conveyed to the Partnership. During the redevelopment period, the properties were managed by a subsidiary of CSHDC.

The project was able to obtain relatively speedy local and state approvals, including hazardous waste and Superfund Act certifications, and a variance from the state Architectural Barriers Board

4. Construction Financing

According to the Massachusetts Housing Finance Agency (MHFA), which provided the construction loan, at the time of transfer of the property to the Partnership the estimated development budget for the redevelopment was $10,652,841, not counting the pre-development expenses which had been incurred by BHP in its negotiations with HUD and dealings with CSHDC. MHFA provided a construction loan at 9.6% interest for $8,789,000, or 83 percent of its estimate of the mortgageable costs.

Equity in the project was anticipated to come from several sources. Action for Boston Community Development, Inc. (ABCD), the local community action agency, pledged a weatherization grant of $270,856 to the project. In addition, $706,285 in syndication proceeds anticipated by the Washington/Columbia Limited Partnership were budgeted up front as equity contributions during development. These proceeds came from BHP II Limited Partnership, which had bought all of the limited partner interests in the Granite properties being redeveloped under the aegis of the seven nonprofits. BHP II then syndicated the combined projects and allocated the proceeds among the "lower tier" limited partnerships, retaining some of the investor contributions at its own "upper tier" level for reserves, net worth account requirements, and fees associated with the syndication.[1] Finally, as part of the project's "equity", MHFA

[1] BHP originally anticipated that the cumulative capital contributions available to the seven local limited partnerships would be approximately $14,677,500, of which approximately $1,200,000 would be used to establish a temporary reserve at the "upper tier" level primarily to cover construction cost overruns with

gave the local partnership "credit" in its estimated development budget for $886,700 in builder's/sponsor's profit and risk allowance (at 8% of the total development budget).

In addition to one hundred percent lien, payment, and performance bonds, as a condition for its loan, MHFA required a deposit and/or a letter of credit of 6 percent of the loan amount for construction security, 2 percent of the loan amount for working capital, and up-front payment of the agency's 2 percent financing fee. Due to these requirements and the delay in receiving syndication proceeds,[2] the Partnership obtained a letter of credit from the Blackstone Bank for $175,780. As security for this letter of credit, which was used to cover one-third of the construction collateral requirement of MHFA, the Partnership pledged a note which it had received from BHP II for $268,000 in future syndication proceeds. Interest due on any draws against this letter of credit were to accrue on a floating rate of 2% above the base rate for the bank.

For MHFA's collateral and its other cash requirements prior to the receipt of syndication proceeds, in August 1988 the Partnership also had executed a residual receipts note to the city's Neighborhood Housing Trust (NHT) to secure up to $720,586 in Linkage[3] advance funds As security the Partnership issued a second mortgage to NHT. The annual interest rate on this note was set at 5 percent, with the principal and interest to be due at the maturity date of the permanent financing for the project. At this time, the Partnership also executed a residual receipts note to BHP for $49,010, secured by a third mortgage to BHP.[4]

5. Construction Period

As a condition of its construction funding from MHFA and the City of Boston, the project was required to enter into an Equal Opportunity/Affirmative Action contract, establishing a minority hiring goal (30%), minority contract goal (30%), women hiring goal (10%), women contract goal (10%), and Boston residents hiring goal (50%). The project was able to substantially achieve all of these targets.

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respect to the projects, and approximately $500,000 would be used to establish a permanent reserve to be employed primarily for operating deficits. After completion of Washington/Columbia (Phase I), BHP re-syndicated the non-profit portfolio, yielding approximately $2 million in additional investor contributions for the eight non-profit projects

[2] The Partnership was scheduled to receive its share of syndication proceeds in two installments -- the first installment to be paid on the date that the local partnership closed its construction loan, and the second installment on the later of September 15, 1989 or completion of the project.

[3] The City of Boston's Linkage Program is part of the Boston Zoning Code (see in particular, Articles 26 and 26A, as amended).

[4] The BHP's funds to the local partnerships to help cover a portion of MHFA's deposit requirements came from a $2,600,000 loan from the Boston Public Facilities Department's Build Loan Program (largely funded with CDBG float funds). The Build loan to BHP earned interest at a rate of 3% and was secured by an unconditional and irrevocable letter of credit from the Shawmut Bank

Construction began in November 1988, and ran through February 1990. The construction period was lengthy, in part because the buildings were rehabbed on a staggered basis (two at a time) in order to minimize relocation. Over the course of the overall project, 121 households were relocated at a cost of $183,145, approximately 27% less than the original budget for this line item. The construction period also lasted longer than originally planned (15 months rather than the scheduled 12 months) because after the rehabilitation had been initiated, the general contractor found that the existing conditions at the properties were worse than anticipated. For example, it was discovered that the properties contained aluminum wiring, which then had to be replaced. The condition of the plumbing in many units was more deteriorated than expected, requiring much more extensive work in the bathrooms and kitchens. Lead paint was also much more prevalent than first thought. Overall, the project experienced thirteen change orders amounting to $561,108 in additional construction costs over the original construction contract amount. When the extent of the additional work was determined, the construction contract with the general contractor was re-negotiated. The additional costs for this supplementary work, over and above the amount originally budgeted for direct construction costs and contingency, were covered by a combination of the MHFA weatherization grant, some insurance proceeds, and a draw down from the BHP reserves established with the syndication proceeds.

The construction contract also included an incentive clause for the contractor, in which an allowance for a bonus was budgeted. As an incentive for speedy completion, the contractor would receive 50 percent of the balance of the "bonus budget" line item after interest, insurance, taxes, and the loan insurance premium for the construction period were deducted Because the duration of the construction period was longer than anticipated, the bonus was relatively modest but the contractor still realized $58,110 as an incentive fee.

The cost certification done for the project on February 28, 1990 showed $10,064,004 in mortgageable expenses, $852,495 in other (non-mortgageable) project costs, and a $1,006,400 credit for profit and risk allowance. According to the certification, as part of the mortgageable expenses, CSHDC had received $263,620 for reimbursement of staff costs in connection with the project, as well as $39,782 for its role in providing the construction manager for the rehabilitation.

The certification also showed that the project owed the Codman Square HDC a development fee of $183,764. In connection with the agreement executed between BHP and the Partnership, the latter was empowered to pay CSHDC out of syndication proceeds a development fee for its technical assistance, to the extent that those proceeds exceeded out-of-pocket project expenses.

6. Permanent Financing

At the completion of construction, the MHFA construction loan was rolled over as permanent financing in the form of a 30-year mortgage co-insured by HUD under the 221(d)(4) program. The annual interest rate was set at 9.6%, plus an additional 0.5% for a mortgage insurance premium. The monthly principal and interest payment on this loan was $74,504.28, commencing four months after construction was completed. The project also was required to

establish a Replacement Reserve, with deposits made to it on a monthly basis at the annual rate of $41,525. For final endorsement, the project also needed to provide evidence that it had established an Operating Reserve equal to 4 percent of the loan amount. This created a reserve in addition to that available in the BHP "upper tier". After three years of operation, for each subsequent full year in which there was a positive cash low, MHFA will permit the project to reduce the operating letter of credit by 1 percent of the loan amount. CSHDC views this as a possible mechanism to realize its deferred development fee.

With the additional capital contribution from BHP's re-syndication of the eight nonprofit projects, Washington/Columbia (Phase I) received $2,724,611 in syndication proceeds.[5] One of the uses of the additional contribution from re-syndication was to "take out" the City of Boston Linkage funds remaining in the project.

7. Lease-up and Occupancy

As part of the Granite properties "package" agreed to by HUD, MHFA, and BHP, the individual projects sponsored by the local nonprofits received an allocation of Section 8 vouchers. Washington/Columbia Limited Partnership received a fifteen-year housing assistance payments contract from HUD for up to 151 project-based Section 8 rental assistance vouchers. Under this agreement, HUD elected to set the contract rents based on 144% of the Boston FMR levels for the various unit sizes, due to the distressed nature of the neighborhoods in which the project was located.[6] Monthly rents on the units were initially set at $908 for the 56 one-bedroom units, $1,068 for the 86 two-bedroom units, and $1,335 for the 9 three-bedroom units.

The project was able to achieve 95% occupancy by July 1990. However, the sponsors soon discovered that there were many problem tenants among the original Granite residents who had been temporarily relocated and had returned once construction was complete. According to a CSHDC representative, the previous HUD property management agent had not dealt with tenant non-payment and drug-dealing, and this behavior reappeared once the households were moved back into the buildings. The situation quickly escalated to the point where drug dealers virtually took over one of the buildings, leading some local HUD and MHFA officials to recommend boarding up the structure. The sponsors instead pursued a joint strategy combining an aggressive eviction effort (40 households in a year, at a cost of approximately $3000 per eviction in legal and staff expenses)[7] with the assignment of a Resident Resource staff person to help the tenants organize themselves and begin to take responsibility for the buildings (see attached newspaper article). Although this effort was successful, an additional $75,000 was

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[5] This "allocation" of the syndication proceeds includes $150,196 which went toward the project's share of BHP Upper and Lower Tier costs.

[6] HUD's initial calculation of the contract rents was based on the FMR schedule published for comments on 8/28/87.

[7] Of the 121 households which were temporarily relocated during construction, 111 moved backed to Washington/Columbia following the rehabilitation. Of that number, more than 30 households have been subsequently evicted due to drug-related issues, non-payment, or other problems.

required to repair the damage done by the problem tenants and, despite $20,000 in annual assistance from MHFA to underwrite the cost of security, the project is currently incurring an additional $120,000 in yearly security expenses which constitutes a substantial burden on its operating budget.

8. On-going Operations

The eleven buildings are currently being managed by a private for-profit management company, which worked closely with the sponsor in addressing the tenant-related problems. According to a source at CSHDC, the nonprofit's management subsidiary had not been doing an acceptable job and a decision was made to discontinue the overall operations of this subsidiary as of September 30, 1990. The for-profit management firm receives a fee equal to 6 percent of rent revenues.

Although through the construction period, Washington/Columbia (Phase I) showed a net operating loss of $42,043, in fiscal year 1991 the project showed a positive cash flow. In addition, while vacancies have increased since 1991, the combination of increases in rental income and reductions in operating expenses for fiscal year 1992 has resulted in Washington/ Columbia projecting net income for the current year of $260,297.

The project has resulted in improved living conditions for more than 150 households, provided construction jobs to Boston residents, and expanded the municipal tax rolls. Although a CSHDC source typified the neighborhood housing market as still being "in disarray", with significant numbers of foreclosed properties, the nonprofit sponsor feels that there also are some promising signs of modest re-investment in the area immediately surrounding Washington/ Columbia The city intends to re-landscape the Columbia Road median strip, a local fast food franchise has been re-opened, and there are plans for renovating the adjoining RTC/FDIC property. At present, however, the nonprofit sponsor cautions that the impact of Washington/ Columbia is more one of stabilization than of revitalization, and it is likely to be several years before a marked improvement in the neighborhood will become obvious.

9. Other Activities by Nonprofit Sponsor

Unlike some of the other local development corporations examined which provide an array of community-wide social or advocacy services in addition to their development activities, CSHDC concentrates its efforts primarily on the creation of affordable housing in its catchment area. Recently it has expanded this focus somewhat to include economic development through the creation of commercial space in a mixed-use project. The organization also has experimented with the provision of property management services, but for the present has concluded that more effective management can be realized by contracting for these services with a private for-profit management company.

The experience with Washington/Columbia (Phase I) has emphasized for CSHDC the importance of supportive services directed at their tenants, however. The nonprofit's dilemma now is in finding ways to pay for these services.

The second half of the project as originally planned -- Phase II of Washington/Columbia -- consists of 175 units. Although planning for these units commenced in 1986 and preliminary financing approval has been received from MHFA, the conveyance closing on these units had not yet occurred as of August 1992.

10. Development Costs/Analysis of Data

Summary financial data for this project are presented in Exhibits 1 and 2. Non-cash sources of financing for the project included:

- An interest subsidy from the Linkage loan and waived loan origination fee. The value of these financing subsidies was $34,228.
- Donated land and structures, the value of which is based on Boston's 1988 assessment of $3,236,000.
- A "paper" builders profit and risk allowance and a deferred developer's fee from syndication proceeds currently held as operating reserves.

Legal and organization expenses include legal expenses of over $35,000, the development consultant at $163,000, and cost certification of $9,000. In addition, the exhibit figures show the MHFA-required reserves originally funded by Linkage funds and "taken out" by syndication proceeds, as well as the following syndication costs:

Acquisition	$102,478
Upper Tier Net Worth	269,356
Lower Tier Net Worth	404,035
Upper Tier Costs	41,363
Lower Tier Costs	108,833
	$926,065

11. Summary and Sponsor Recommendations

This is another case where the developer's fee included in the mortgageable expenses was a "paper" number (builder's profit and risk allowance). Although there were some provisions for the nonprofit to receive a developer's fee through syndication proceeds, this fee is being deferred because the funds are currently tied up as deposits to the Operating Reserve account. If the project operates with a positive cash flow over time, this fee can be realized. However, if the funding sources don't recognize the need for supplemental operating funds for social services and security, the necessity to provide for these line items within the regular budget may keep the project from operating "in the black". Since the tenant problems which led to the need for additional security and resident services were in large part inherited with the property from HUD, and it was the nonprofit's effort directed in these areas which was a key factor in the

ultimate success of the renovation effort, CSHDC is looking for more assistance from HUD and MHFA for these expenses.

The CSHDC was able to get $303,402 in direct project-related administrative expenses certified and reimbursed as mortgageable expenses However, the nonprofit noted that it was a continuing struggle to get their actual costs recognized, and the organization is often told by funding sources "that's not a project expense, that's a CDC expense". This problem for CSHDC has been exacerbated by the decision by HUD to split the Washington/Columbia project into two phases, because the nonprofit is not permitted to recoup all its direct expenses involved in the initial pre-development process (estimated to be several hundred thousand dollars), not to mention a development fee, until and unless Phase II goes forward.[8]

According to CSHDC, the resulting problem for CDCs is that they don't have the money to cover core expenses or to take a speculative position on a project. When the current executive director and financial director started with CSHDC several years ago, covering payroll every two weeks was an "iffy" proposition. The organization is currently in much better shape, but it still doesn't have sufficient capital to acquire property or options to take advantage of market opportunities or initiate promising local projects.

Moreover, one of the reasons why CSHDC's finances have improved is because the organization is the beneficiary of a grant for core funding from the Boston Neighborhood Development Support Collaborative. In 1986, Boston LISC (Local Initiatives Support Corporation) concluded that if local community-based development organizations were "to participate fully in the competitive development arena, they needed to increase their management capabilities and secure more certain funding".[9] In concert with local foundations, city and state agencies, The Ford Foundation, and United Way, LISC created the Collaborative as a demonstration program to provide multi-year core funding to a sample of ten local CDCs. However, the Collaborative funding is scheduled to end and CSHDC is trying to identify alternate sources of operating funds. A representative of CSHDC also framed the broader issue: if a sophisticated organization like CSHDC -- with a track record of ten projects, lots of technical assistance and support mechanisms, and some core funding -- is just "squeaking by", what are the long term prospects for the real novice nonprofit in parts of the country where there is no additional support?

[8] The splitting of Washington/Columbia into two phases, and the delay experienced in proceeding with the second phase, is also creating a problem for the Massachusetts Housing Finance Agency. Because it was led to believe that Phase II would begin immediately after Phase I, MHFA went ahead and issued the bonds for both phases. It is now more than two years later and MHFA is stuck with an estimated $400,000 in negative arbitrage (i e., holding funds with a return that is less than the bond rate), and wondering who will pay for it.

[9] From Boston LISC program brochure.

Hard-working teens turn war zones back into homes

This time a year ago, the plan was to seal up the Washington Columbia Apartments at the corner of Columbia Road and Geneva Avenue with plywood, cut the losses and wait for better days in the next century

If the crackheads and the little "gangstas" ripped the boards off and claimed the property by eminent domain, well, so be it

Jequeta "Jody" Bostick happened to live at 169 Columbia Road with her brothers and sisters if living is what you want to call it

"It was bad out in the street," she recalled the other day "But it was worse in the hallways You could get hurt real bad in the hallways I went to school. Then I came home and locked the door That was about it"

A year ago, the Kuwaiti desert had nothing on the hallways at 165 and 169 Columbia Road The drug dealers, the junkies and the cops were locked in a kind of three-way tango that had gone on for years.

"It was as if they had devoured the walls," said Alyce Lee, the director of the Codman Square Housing Development Corp, who assumed command of the property after HUD turned tail and ran.

"People would literally kick holes, or shoot holes,

WORKING FOR A LIVING: Painting the hallway of 165 Columbia Road last week are Demont Mooney, LaDavia Sutton, Larry Bostick, Jequeta Bostick, Ty Wesley and Amica Washington of Fe Male Painting Co Staff photo by Curtis Ackerman

PETER GELZINIS

in the walls as fast as you would put them up The MHFA (Massachusetts Housing Finance Agency) wanted us to throw in the towel and walk away"

Alyce Lee decided instead to take them back She went in with plenty of security and plenty of eviction notices Then she had the good fortune to hire a lady named Jackie Davis, who was given the task of turning a waste land into a community

"Of the 14 families that were living here at 165 (Columbia Road) before I got here back in May, 10 of them were actively and openly selling drugs None of this was here e this office, the walls, the lights The place had been eaten just about to the bones"

To help in the resurrection, Jackie Davis criss crossed Columbia Road, knocking on doors, hand ing out flyers, looking for kids who wanted to spend the summer painting and patching for $5 an hour

"I told them straight up what this was about," Jackie said "Painting apartments, cleaning toilets, scrubbing sinks, re placing walls, honest work for which they would earn some honest money

"No, it wasn't going to be as much as some of their friends were making to sell drugs, or to simply look out for the cops, or another gang But I told them, at least with this money, they wouldn't have to be looking over the shoulders They wouldn't have to worry about dying, like too many of their friends, over this money"

Ten kids, most of whom had spent a large part of their childhood locked in their apartments at these buildings, took Jackie up on her offer.

Back at the beginning of the summer, the idea was to keep these kids busy for about 17 weeks But along the way, paint ing and patching for five bucks an hour has blossomed into an entrepreneurial creation known as 'Fe-Male Paint Company"

"We called it that," Jody Bostick said, "because when we began it was eight girls and two guys. And then, when school came some of the guys had football practice, it was just the girls who kept this thing going."

With the guidance of Larry diSalvatorre from Roxbury Youthworks, Jody Bostick, Oliveviere Homer, Amica Washington and the seven other friends who took up a paint brush last summer are now in the process of incorporating themselves into their own painting firm

Last summer, they worked under the supervision of a mainten ance man from the Sampson Management Co Today, they are drawing their salaries (up a few notches from $5 an hour) from the contract they signed with the Cod man Square Housing De velopment Corp

Lest you get the impression that this is a story about how a group of good kids were given "busy work" to keep them out of harm's way, listen to Jackie Davis

'The word has already gotten around to many of the other CDC's who own other apartment build ings along Columbia Road and all around us There's another 80 units that need turning over when they run out of walls and hallways here We're talking about some real money and real work"

Real enough so that Jody Bostick and Amica Washington, the founders of the Fe Male Paint Co may have to consider hiring a few more kids from a waiting list that's growing by the day.

Life has come back into focus at the Washington-Columbia Apartments The place they wanted to board up now has an elected residents council Elderly who would never dare to open the door, now come out to feel the morning sun And the kids, whose dreams could have died under that plywood, are now writing monthly financial state ments □

EXHIBIT 1

Sources and Uses of Cash and Non–Cash Resources

Washington/Columbia

I. Sources of Funds	Cash	Non–Cash	Total
1 Syndication Proceeds	$2,724,611	$0	$2,724,611
2 Weatherization Grant	$281,325	$0	$281,325
3 Contribution from Insurance Proceeds	$29,234	$0	$29,234
4 MHFA Loan	$8,789,000	$34,228 [1]	$8,823,228
5 Donated Land	$0	$3,236,000 [2]	$3,236,000
6 Donated/Deferred Developer's Fee	$0	$1,190,124 [3]	$1,190,124
7			$0
8			$0
9			$0
10			$0
11			$0
12			$0
13			$0
14			$0
15			$0
TOTAL	*$11,824,170*	*$4,460,352*	*$16,284,522*

II. Uses of Funds	Out–of–Pocket	Non–Cash Contribution	Total
Planning and Design	$269,908	$0	$269,908
Acquisition	$0	$3,236,000 [2]	$3,236,000
Finance/Carrying Charges	$867,646	$34,228	$901,874
Relocation	$183,145	$0	$183,145
Construction	$8,669,791	$0	$8,669,791
Real Estate Taxes	$41,673	$0	$41,673
Marketing	$0	$0	$0
Reserves	$395,533 [4]	$0	$395,533
Legal and Organization (including Development Consultants)	$206,789	$0	$206,789
Developer's Overhead/Staff	$263,620	$0	$263,620
Developer's Fee	$0	$1,190,124 [3]	$1,190,124
Syndication Costs	$926,065 [5]	$0	$926,065
TOTAL	$11,824,170	$4,460,352	$16,284,522

III Contributions	Cash	Non–Cash	Total
TOTAL	$310,559	$4,460,352	$4,770,911

Notes
1 720,586*1 0% + 720,586*5 0%*18/12*0 5
2 1988 Boston assessment
3 $1,006,400 BSPRA + deferred developer's fee from syndication proceeds of $183,724 Nominal Expected Rate (6 0%) for Combined Developer's Fee, Overhead, and Staff Costs as a Function of Total Development Costs net of these costs is lower and is not calculated
4 Funded by Linkage, taken out by syndication proceeds
5 Acquisition, Upper and Lower Tier net worth, and Upper and Lower Tier costs

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EXHIBIT 2
Summary of Financial Data Analysis

Washington/Columbia

		%
CASH EQUITY	$3,035,170	18 6%
DEBT FUNDS	$8,789,000	54 0%
NON–CASH RESOURCES	$4,460,352	27 4%
TOTAL RESOURCES	$16,284,522	100 0%
Percent Public Resources	$12,340,553	75 8%
Percent Private Resources	$3,943,969	24 2%
OUT–OF–POCKET COSTS	$11,824,170	72 6%
VALUE OF SUBSIDIES AND DONATIONS	$4,460,352	27 4%
FULL COST (Including Subsidies and Donations)	$16,284,522	100 0%

COSTS BY CATEGORY		%
Planning and Design	$269,908	1 7%
Acquisition	$3,236,000	19 9%
Finance/Carrying Charges	$901,874	5 5%
Relocation	$183,145	1 1%
Construction	$8,669,791	53 2%
Real Estate Taxes	$41,673	0 3%
Marketing	$0	0 0%
Reserves	$395,533	2 4%
Legal and Organization (including Development Consultants)	$206,789	1 3%
Developer's Overhead/Staff	$263,620	1 6%
Developer's Fee	$1,190,124	7 3%
Syndication Costs	$926,065	5 7%
TOTAL	$16,284,522	100 0%
LAND COST ESTIMATED	$549,500	
TOTAL LESS LAND COSTS	$15,735,022	

	Including Land	Without Land
Normalized Full Cost (Location and Year)	$13,511,448	$13,055,522
Normalized Standard Unit Cost	$110,678	$106,943
Initial Rent	$1,025	
Initial Rent as a Percent of FMR	131 8%	
Initial Standardized Rent	$1,267	
Initial Standardized Rent as a Percent of Median Income	32 8%	
Affordability Level	109 5%	
Required Rent if Fully Market–Financed	$1,178	
Percentage Increase Required Over Actual	15 0%	
Percentage Increase Required Over Tenant Payment	248 4%	
Present Value of Subsidies and Donations	$4,770,911	

WORKSHEET

Washington/Columbia

1. Normalized Full Cost	*with land*	*without land*
a Full Cost	$16,284,522	$15,735,022
b Time Factor	1 02	1 02
c Location Factor	0 81	0 81
d a*b*c	$13,511,448	$13,055,522
2 Number of Standard Units		
a Total Square Feet	103,035	
b a/844	122 08	
3. Normalized Standard Unit Cost		
a 1d/2b	$110,678	$106,943
4 InitialRent as a Percent of FMR		
a Initial Rent (wgted by avg unit size)	$1,025	
b FMR	$777	
c a/b	131 8%	
5. Initial Standardized Rent as % of Mean		
a Actual Units	151	
b Actual Units/2b	1 24	
c b*Initial Rent (=Standard Rent)	$1,267	
d Median Income	$46,300	
e c/(Median Income/12)	32 8%	
6. Affordability Level		
a Initial Standard Rent (5c)	$1,267	
b (a/ 30)*12	$50,692	
c b/Median Income	109 5%	
7 Required Rent if Financed		
a Full Development Cost	$16,284,522	
b Equity	$2,753,845	
c a−b=principal	$13,530,677	
d Debt Service at Market	$786	
e Monthly Operating Cost + Reserve	$392	
f d+e=Required Rent	$1,178	
g Percent Increase Required	15 0%	
h Average Tenant Payment	$338	
i Percent Increase Required	248 4%	
8. PV of Subsidies and Donations		
a Grants and Cash Contributions	$310,559	
b Non−Cash Contributions	$4,460,352	
c Diff of PV of Actual & Market Loan	$0	
d a+b+c	$4,770,911	

La Concha Apartments
Boston, Massachusetts

1. Overview

The La Concha Apartments are made up of ninety-seven (97) rental units in five scattered-site rehabilitated buildings in the Dudley Street neighborhood of Roxbury in Boston. The buildings consist of two three-story structures, two four-story structures, and one five-story structure. Although of differing design, all are constructed of brick. The nonprofit sponsor for the project was the Nuestra Comunidad Development Corporation, which signed a contract to acquire the properties in November 1988. The site was actually acquired and construction begun in June 1989, and the rehabilitation was completed in October 1990. The rehabilitation work was phased on a building by building basis, with most existing tenants being temporarily relocated during construction. All units are occupied by low or very low income households, and have project-based Section 8 rental assistance vouchers allocated to them.

The Dudley Street neighborhood has extensive signs of urban blight. More than 48 percent of the housing units occupied in 1947 have been demolished or are so deteriorated as to have been judged uninhabitable in 1990. Over that period, public facilities and services for the neighborhood "suffered commensurate diminution".[1] The population of the neighborhood is a mix of blacks, Caucasians, Hispanics, and Cape Verdeans. The median household income is half that of the city of Boston, with a high percentage of female-headed households.[2]

In recent years, however, the Dudley Street neighborhood has been the focus of some significant efforts to encourage revitalization. A new subway and bus terminal was completed by the Massachusetts Bay Transportation Authority, and the state has chosen to locate the new headquarters for the Registry of Motor Vehicles in the neighborhood.

2. Sponsor and Development Team

For its part, in the eleven years since its founding in 1981, Nuestra Comunidad has rehabilitated or constructed 197 units of affordable housing (including La Concha Apartments), with 139 units of rental housing which continue to be managed under the oversight of the organization and 58 homeowner units. The nonprofit also has developed and manages eight commercial spaces.

Although Nuestra Comunidad was the sponsor for the La Concha project, in order to take advantage of Low Income Housing Tax Credits, the La Concha Limited Partnership was formed

[1] Project Proposal, Nuestra Comunidad Development Corporation, 1992, p.1.

[2] For example, a 1991 survey by Nuestra Comunidad revealed that 94% of the tenant households of property developed by the organization were female-headed.

on January 15, 1989 to act as the project developer. A for-profit general partner for the limited partnership was also organized, the La Concha Corporation, which is wholly owned by Nuestra Comunidad. La Concha Corporation owns 1 percent of the limited partnership, with the remaining 99 percent owned by the limited partner (BHP II Limited Partnership).

Architectural services for the project were provided by a Boston firm. The limited partnership also entered into a joint venture agreement with a local firm for the construction of the project. Both of these firms were selected through competitive procurement based upon their submission of the lowest bid. The contractor also had extensive prior experience with the Massachusetts Housing Finance Agency (MHFA), which was seen as a principal source of funding for the project.

A development consultant, who has enjoyed a long-term relationship with Nuestra Comunidad, was utilized throughout the project. Legal services were provided on a pro bono basis by a local law firm who has contributed such services to Nuestra Comunidad since its incorporation. During the development period, management of the properties was handled by a for-profit management company. Staff from Nuestra Comunidad provided financial management for the project, and worked with the paid consultants/contractors in the planning and design, financing, construction management, and marketing functions.

3. Pre-development Period

The initial planning work for La Concha Apartments was not carried out by Nuestra Comunidad, but instead by the Massachusetts Housing Finance Agency and the Boston Housing Partnership, a city-wide organization formed to advocate the creation of affordable housing. The five buildings of La Concha Apartments were part of the Granite properties. The "Granites", which are named after the developer who had rehabbed them in 1967-68, are 2000 units of HUD-foreclosed housing scattered throughout Boston's Roxbury and North Dorchester neighborhoods. Although they had been extensively rehabilitated in the late 1960's, over time these properties were allowed to deteriorate. They fell into such extreme disrepair that by the mid-1980's the estimates for bringing them into compliance with housing and sanitary codes ranged from $46 million to $88 million. In addition, the vacant units in these properties were attracting vandals and being used by drug dealers, further exacerbating the crime problems in these distressed neighborhoods.

In the interest of restoring and retaining these units as affordable housing, the Boston Housing Partnership (BHP) and MHFA approached HUD. After lengthy negotiations, in 1986 HUD agreed to allow MHFA to act as HUD's agent for the disposition of a 218-unit portion of the Granite portfolio. Moreover, HUD agreed to sell 944 additional Granite units to local nonprofit community development corporations in conjunction with the BHP. The MHFA pledged $80 million in financing for the renovation of the Granite units, and HUD agreed to provide Section 8 rental assistance for the low income residents of these properties.

The Boston Housing Partnership ultimately selected seven nonprofit CDCs to acquire and rehabilitate its allocation of Granite properties, and among the organizations selected was

Nuestra Comunidad. The Granite units were distributed among the nonprofits according to their respective catchment areas, and Nuestra Comunidad received an allocation of 97 units

Upon receiving its allocation of Granite units, Nuestra Comunidad retained the services of the architect, who developed preliminary specifications for the rehabilitation work.[3] With BHP's assistance, Nuestra Comunidad also negotiated a purchase and sale agreement for the properties with HUD, which was executed on November 1, 1988.

Nuestra Comunidad then established the La Concha Limited Partnership in January 1989. For purposes of syndication, BHP established a two-tiered partnership structure with the seven nonprofits. For each project, the nonprofit CDC established a "local" limited partnership, with a for-profit subsidiary as general partner. The limited partner shares for these local limited partnerships then were sold to the upper-tier BHP limited partnership The BHP upper-tier limited partnership then raised money through syndication of the combined portfolio, and allocated the syndication proceeds among the individual projects, with individual project reserves and a "pooled" reserve retained at the BHP upper-tier level. This collective syndication approach was felt to be the best way to be able to move forward simultaneously in raising funds and undertaking the individual projects, while maintaining reserves which could be accessed by any of the projects experiencing difficulties. As its share, La Concha Limited Partnership received an allocation $2,030,054 in syndication proceeds for the project, although $649,360 of this amount was used for syndication related-expenses.[4]

According to representatives of Nuestra Comunidad, the local approval process for the project was fairly quick, in part due to the utilization of the comprehensive permit process. The deed to the five properties for La Concha Apartments was conveyed from HUD to the local partnership on June 1, 1990. Although the deed was conveyed for one dollar, as part of the sale the La Concha Limited Partnership was required to agree to pay HUD $6,645,111 in the event that the property was re-sold or no longer maintained for use as affordable housing. Given that the 1989 assessed value of the land and structures of these properties was $2,656,000 (according to city of Boston tax records), the amount set by HUD may have been intended to discourage any of the parties providing loans or notes to the project from attempting to take eventual possession of the property.

According to the August 12, 1989 project sources and uses chart put together by the development consultant, pre-development costs (net of MHFA pre-paid equity and architectural

[3] The architect and Nuestra Comunidad initially signed an agreement for architectural services on February 16, 1987. According to Nuestra staff, under this original agreement the architect was to be paid according to a fixed percentage of the construction cost However, as the pre-development period became much more extended than anticipated, the architect prevailed upon the La Concha Limited Partnership to re-negotiate the contract. Ultimately the architect received $322,841 in fees, $42,443 for construction clerk services, and $20,545 in reimbursables

[4] Included among these syndication-related expenses were contributions to the BHP and local limited partnership net worth accounts, upper and lower tier costs, and fees for the letter of credit required by the syndication bridge loan

services) for La Concha Apartments had been $208,014, most of which were covered by syndication proceeds. Out-of-pocket total development costs (both mortgageable and non-mortgageable) were estimated at that time to be approximately $8.9 million.

4. Construction Financing

In addition to the balance of the $2,030,054 in syndication proceeds available to the project, construction financing for La Concha Apartments came from a wide variety of public and private sources. In March 1989, MHFA issued a commitment letter for $5,980,600 in financing for the project, and a note for that amount was executed on May 5, 1989. On August 10, 1989, the project received $340,294 in "linkage funds" from the city of Boston through the city's Neighborhood Housing Trust, in the form of a deferred payment loan. On this same date, La Concha Limited Partnership also secured $165,000 in the form of a zero percent interest, residual receipts note from the city of Boston's Build Loan Program, and a zero percent interest syndication bridge loan of $176,804 from BHP to cover expenses until installments of syndication proceeds were received.

Other sources of construction financing included a weatherization grant for $120,900 from Action for Boston Community Development (Boston's nonprofit community action agency), a grant of $36,000 from BHP for a staff person to assist tenants during construction, and $32,104 in various small grants, receivables, deposits and anticipated interest income. At the time of construction closing, MHFA also credited the project for $603,091 in "equity" for builder/sponsor profit and risk allowance.

5. Construction Period

Construction began on June 4, 1989. In order to minimize relocation costs, the rehabilitation work was phased on a building-by-building basis. There was still a significant cost overrun on the relocation line item, however, when it was discovered that the existing wiring in one of the five buildings was aluminum and had to be replaced. This unanticipated discovery meant that much more extensive (and disruptive) repairs to the building would be required, and the tenants, who had originally intended to stay in their units during rehabilitation, elected to be temporarily relocated. This resulted in increased relocation costs (not including related Nuestra Comunidad staff expenses) from the budgeted level of $106,655 to the final total of $245,245.

The five properties comprising La Concha Apartments required only minimal site preparation or infrastructure improvements. Some of the adjacent sidewalks were replaced and, for two of the buildings, handicapped ramps were constructed. The only contribution relative to infrastructure from an external source during construction was in the timing in which the local cable television company scheduled the installation of cable at one of the buildings, to ensure it was installed before finish work on the property was begun. (Subsequent to the construction, however, the city's parks department responded to the advocacy of neighborhood residents organized by a tenant of one of the La Concha buildings. The city agency has involved local residents in the re-design of a neighborhood playground across the street from the building, and is attempting to expedite completion of the playground improvements.)

There were fifty change orders in the course of the construction period, amounting to an additional $359,716 in mortgageable direct construction costs over the original construction contract amount of $4,596,113. The change orders exceeded the budgeted contingency by $30,000-$40,000, which required some modest scaling back in the scope of work. Some landscaping and other items were deferred, with the intention to address them through operating income. Overall, construction proceeded relatively close to the anticipated schedule and was completed on October 4, 1990.

6. Permanent Financing

Following completion of construction and final endorsement, MHFA approved a 30-year mortgage for La Concha Apartments in the amount of $5,980,600 at an interest rate of 10.13%. The mortgage is co-insured by HUD and secured by the property of the project. Monthly mortgage payments of $53,059 on this long-term debt are due until February 2021. The $165,000 Build Loan from the city of Boston remained in the project as a no interest, residual receipts note due at the maturity of the MHFA mortgage. The BHP bridge loan and city of Boston linkage funds were "taken out" by syndication proceeds.

In addition, the financial statement for La Concha Limited Partnership for the period ending December 31, 1991 revealed that the partnership had incurred a note for $763,194 payable to Nuestra Comunidad as a development fee for "various services rendered in connection with the development and rehabilitation of the project". Interest accrues on this note at the rate of 12% compounded annually and payments are to be made out of the syndication reserves, or from operating surplus (subject to HUD and MHFA approval) In 1991, the La Concha Limited Partnership paid $84,602 on this note to Nuestra Comunidad out of syndication funds, an amount which is less than the accrued interest for the year on the balance. According to the current executive director of Nuestra Comunidad, in addition to securing compensation for development-related costs which the organization was not able to have included under the category of mortgageable expenses, the nonprofit sponsor is interested in building up the debt which the La Concha Limited Partnership owes Nuestra. This approach is being taken so that when the partnership dissolves in fifteen years, the nonprofit will be in a strong position to negotiate with the limited partners over the future use and affordability of the property. In the extreme, the partnership would be unable to pay the debt with accrued interest and would put Nuestra in the position of foreclosing on their interests.

7. Lease-up and Occupancy

When the property was conveyed in June 1989, HUD also entered into a Housing Assistance Payments Contract with La Concha Limited Partnership, committing project-based Section 8 rental assistance for up to 97 units for a term of fifteen years. Because the Dudley Street area met HUD's criteria for distressed neighborhoods with high operating costs for housing, maximum contract rent levels were based on 144 percent of the prevailing FMRs. This established a monthly contract rent of $900 for the 32 one-bedroom units, $1061 for the 34 two-bedroom units, $1327 for the 26 three-bedroom units, $1484 for the 7 four-bedroom units, and $1706 for the one five-bedroom unit.

At the time of conveyance, approximately fifty percent of the units in the five buildings were vacant. As the rehabilitation was completed on each building, the temporarily relocated tenants were moved back to their renovated units. Some tenants chose not to return to their old units, however. For these units, and for the units which had been vacant prior to the development effort, Nuestra Comunidad and the for-profit property management company performed the necessary marketing and tenant selection. The management company was paid for these activities as part of their regular management fee.

When tenants were being moved back in and were recertified to determine their share of the rent to be paid, it was discovered that many of these households had not had their incomes redetermined for a number of years. Therefore, despite increases in income over the years, their share of rent had not gone up. As a result, the new income and rent re-determinations meant some large increases in the share of rent for many tenants. This was one of the factors in the decision of some of the relocated tenants not to move back. For those that moved back and were facing large increases, Nuestra/La Concha Limited Partnership made the determination to ease the transition by implementing the rent increases on a phased basis, so no household's rent went up by more than $50 per month. For some households, implementation of the rent increases was spread over an 8-9 month period.

La Concha was able to pursue this approach because the rent levels set by Section 8 provided them with a very positive revenue stream overall. In addition, although the Partnership had anticipated taking advantage of this strong operating revenue position to complete the rehabilitation work items which the change order overruns had precluded, as it turns out this was not necessary. Approximately three months after the completion of construction, the Partnership changed property management companies. The new property manager reviewed the project records and was successful in appealing to HUD for additional subsidies and allowances related to prior years, consisting of $211,601 for retroactive rental increases and $47,252 of vacancy relief According to staff of Nuestra Comunidad, approximately $80,000 of these additional subsidies were utilized for landscaping, window grates, and other deferred renovation tasks.

Another area where La Concha Apartments is receiving additional assistance is in the area of security. When MHFA was planning for the rehabilitation of the Granite properties, tenants came to the agency to warn that without a comprehensive strategy to deal with the drug-dealing and crime in the Granite buildings and the neighborhoods where they were located, any benefit from the $80 million which MHFA was investing would be negated in a few years. In response to this, MHFA formed the Inner City Task Force, with representatives from tenants and tenant organizations, local and state law enforcement professionals, HUD, the Archdiocese of Boston, social services organizations, legal services, the Boston Housing Court, and for-profit and nonprofit housing developers. The efforts of the Task Force have resulted in an increase of Boston police patrols in the Granite neighborhood by 10-15 percent, faster processing for evidence seized in Granite-area drug arrests, and the publication of a fast-track eviction manual to help property managers evict repeat drug offenders while protecting the rights of law abiding residents. In addition, MHFA hired a minority-owned firm to provide security for Granite buildings during and after rehabilitation.

8. On-going Operations

Currently, La Concha Apartments' 97 units are fully occupied. The project is showing a modest operating surplus for the year to date. Resident rent delinquencies for the month of June 1992 totalled two percent of gross potential rent for the month, after adjustments As of December 31, 1991, the Partnership had over $465,000 in combined reserves in its replacement, construction, and syndication reserve accounts.

Approximately thirty percent of the units are occupied by households which were residents prior to the renovations. This percentage is not surprising given such factors as the fifty percent vacancy rate before rehabilitation, the move-outs resulting from the rent increases, and the evictions which have occurred for drug-related offenses and non-payment. An estimated fifty percent of the current residents came from the local neighborhood.

Although a myriad of problems still confront the Dudley Street area, representatives of Nuestra Comunidad feel that the rehabilitation of La Concha Apartments has had some significant positive effects. These include the restoration of units to the local housing stock, the enhancement of local property values, increased property tax revenues for the city, and improved security

9. Other Activities by the Nonprofit Sponsor

In addition to its housing development efforts, Nuestra Comunidad carries out a range of additional activities targeted to the properties of its subsidiaries and the Dudley Street neighborhood. For example, Nuestra Comunidad has used funding from the BHP Resident Resource Initiative Program and other grants to fund a staff position to work with tenants in the La Concha Apartments. Initially this staff position concentrated on counseling and information & referral services to try to put La Concha tenants in touch with employment and training opportunities. More recently this position has expanded its focus to include general community organizing activities with the tenants. This has included assisting in the organization of a crime watch and in various other anti-crime/anti-drug activities.

In a joint effort with the Boston Food Coop, Nuestra Comunidad operates a food bank and a farm stand, where USDA coupons are distributed In addition, the organization raises funds for a neighborhood after-school day care program whose operation is delegated to another local nonprofit.

Nuestra also helps local youth in finding summer jobs and, utilizing a grant from MHFA, has established a youth crew which performs maintenance at La Concha Apartments. For younger children, the organization supports summer camp placement for sixty individuals. Nuestra also publishes a youth newsletter and a neighborhood newsletter in English, Spanish, and Portuguese.

Working with the city of Boston's Economic Development and Industrial Corporation and other local CDCs, Nuestra has helped to create a city-wide micro-loan revolving fund. The nonprofit also is developing plans for the start-up of a recycling business.

10. Development Costs/Analysis of Data

Summary financial data for the La Concha project are shown in Exhibits 1 and 2. The project benefitted from interest subsidies on the BHP Bridge loan ($11,787), the linkage funds ($22,686) and the Build loan ($11,000). The nonprofit's contributions to the project include its "donation" of the builder's profit and risk allowance of $603,091, in addition to a deferred development fee of $763,194 in the form of a loan (at 12% interest) from the Partnership to Nuestra Communidad.

The figure for syndication proceeds includes $96,435 in La Concha's share of BHP Upper and Lower Tier Costs. In addition, the costs include:

Acquisition	$ 69,481
Upper Tier Net Worth	185,578
Lower Tier Net Worth	278,366
Letter of Credit	19,500
	$552,925

11. Summary and Sponsor Recommendations

One unusual aspect of this case is the extent to which much of the front-end pre-development and financing work was done by the Boston Housing Partnership. By the time Nuestra Comunidad began to take an active role, many of the decisions on how this and the other seven CDC projects would be structured had already had been made for them by BHP, MHFA, and HUD. The two-tiered syndication approach also meant that BHP would continue to be in a position to make decisions for all the projects. This approach allowed clear economies of scale to be realized, and the expertise at BHP undoubtedly meant that this organization could be a more effective advocate on the nonprofit's behalf in dealings with HUD and financial institutions than some of the nonprofits would have been themselves. However, by taking some key development functions out of the hands of the local nonprofits, some of these CDCs may have lost an opportunity to learn these skills for use in future projects.

Another interesting feature of the case is the fact that of the $2,030,054 in syndication proceeds received by La Concha, very little of these funds went to direct construction costs. A little over $208,000 went to pre-development costs. Approximately $649,360 went to syndication-related expenses. Another $359,000 went for additional reserves required by MHFA. The syndication proceeds were also used to pay contractor's profit and much of Nuestra's direct expenses incurred relative to the project, and as a potential source for Nuestra to recoup a development fee for its role. Although most of these items may be viewed as "soft" costs, they all played a role in making the project more viable for all the parties. For example, although Nuestra Comunidad was more successful in obtaining reimbursement for direct project-related expenses than many of the other nonprofits which have been examined, Nuestra's executive

director estimated that the nonprofit's additional contributions in staff time and other resources could have totalled as much as ten percent of the out-of-pocket development costs.

Although they are not part of the development budget, the high Section 8 rent levels approved by HUD for La Concha's units also played a key role in the current financial health of the project.

La Concha was another example of the nonprofit sponsor electing to use a for-profit firm as property manager.

EXHIBIT 1

Sources and Uses of Cash and Non–Cash Resources

La Concha Apartments

I. Sources of Funds	Cash	Non–Cash	Total
1 Syndication Proceeds	$2,030,054 [1]	$39,644 [2]	$2,069,698
2 Weatherization Grant	$120,900	$0	$120,900
3 BHP Resident Resource Grant	$36,000	$0	$36,000
4 Foundation Grant	$5,000	$0	$5,000
5 Receivable from PDF	$6,200	$0	$6,200
6 Interest– Net Worth	$10,000	$0	$10,000
7 Interest Syndication	$2,354	$0	$2,354
8 Weather Deposit Release	$8,550	$0	$8,550
9 PFD Loan	$165,000	$12,650 [3]	$177,650
10 MHFA Mortgage	$5,980,600	$0	$5,980,600
11 BSPRA/Deferred Development Fee	$0	$1,366,285 [4]	$1,366,285
12 Donated Land	$0	$2,656,000 [5]	$2,656,000
13			$0
14			$0
15			$0
TOTAL	$8,364,658	$4,074,579	$12,439,237

II. Uses of Funds	Out–of–Pocket	Non–Cash Contribution	Total
Planning and Design	$542,855	$0	$542,855
Acquisition	$0	$2,656,000 [5]	$2,656,000
Finance/Carrying Charges	$592,945	$52,294 [1,2]	$645,239
Relocation	$245,245	$0	$245,245
Construction	$5,514,106	$0	$5,514,106
Real Estate Taxes	$33,683	$0	$33,683
Marketing	$0	$0	$0
Reserves	$459,588	$0	$459,588
Legal and Organization (including Development Consultants)	$88,554	$0	$88,554
Developer's Overhead/Staff	$153,720	$0	$153,720
Developer's Fee	$84,602	$1,366,285 [4]	$1,450,887
Syndication Costs	$649,360 [6]	$0	$649,360
TOTAL	$8,364,658	$4,074,579	$12,439,237

III Contributions	Cash	Non–Cash	Total
TOTAL	$161,900	$4,074,579	$4,236,479

Notes
1. Includes $96,435 as La Concha's share of BHP Upper and Lower Tier costs
2. (176,804+340,294)*1 0% + (176,804+340,294)*10 0%*16/12*0 5
3. 165,000*1 0% + 165,000*10 0%*16/12*0 5
4. Figure includes BSPRA allowance of $603,091 plus deferred development fee of $763,194 in the form of a loan (at 12% interest) from Partnership to Nuestra Communidad Nominal Expected Rate (6 0%) for Combined Developer's Fee, Overhead, and Staff Costs as a Function of Total Development Costs net of these costs is lower and is not calculated
5. Based on 1989 Boston assessment
6. Includes acquisition, Upper and Lower Tier net worth, and Upper and Lower Tier costs

23–Oct–92 11 56 AM

EXHIBIT 2
Summary of Financial Data Analysis

La Concha Apartments

		%
CASH EQUITY	$2,219,058	17 8%
DEBT FUNDS	$6,145,600	49 4%
NON–CASH RESOURCES	$4,074,579	32 8%
TOTAL RESOURCES	$12,439,237	100 0%
Percent Public Resources	$8,935,150	71 8%
Percent Private Resources	$3,504,087	28 2%
OUT–OF–POCKET COSTS	$8,364,658	67 2%
VALUE OF SUBSIDIES AND DONATIONS	$4,074,579	32 8%
FULL COST (Including Subsidies and Donations)	$12,439,237	100 0%

COSTS BY CATEGORY		%
Planning and Design	$542,855	4 4%
Acquisition	$2,656,000	21 4%
Finance/Carrying Charges	$645,239	5 2%
Relocation	$245,245	2 0%
Construction	$5,514,106	44 3%
Real Estate Taxes	$33,683	0 3%
Marketing	$0	0 0%
Reserves	$459,588	3 7%
Legal and Organization (including Development Consultants)	$88,554	0 7%
Developer's Overhead/Staff	$153,720	1 2%
Developer's Fee	$1,450,887	11 7%
Syndication Costs	$649,360	5 2%
TOTAL	$12,439,237	100 0%
LAND COST ESTIMATED	$387,500	
TOTAL LESS LAND COSTS	$12,051,737	

	Including Land	Without Land
Normalized Full Cost (Location and Year)	$10,320,973	$9,999,460
Normalized Standard Unit Cost	$107,462	$104,115
Initial Rent	$1,103	
Initial Rent as a Percent of FMR	122 1%	
Initial Standardized Rent	$1,114	
Initial Standardized Rent as a Percent of Median Income	28 9%	
Affordability Level	96 3%	
Required Rent if Fully Market–Financed	$1,585	
Percentage Increase Required Over Actual	43 7%	
Percentage Increase Required Over Tenant Payment	857 9%	
Present Value of Subsidies and Donations	$4,393,162	

WORKSHEET

La Concha Apartments

	with land	without land
1 Normalized Full Cost		
a Full Cost	$12,439,237	$12,051,737
b Time Factor	1 02	1 02
c Location Factor	0 81	0 81
d a*b*c	$10,320,973	$9,999,460
2. Number of Standard Units		
a Total Square Feet	81,060	
b a/844	96 04	
3. Normalized Standard Unit Cost		
a 1d/2b	$107,462	$104,115
4. InitialRent as a Percent of FMR		
a Initial Rent (wgted by avg unit size)	$1,103	
b FMR	$904	
c a/b	122 1%	
5. Initial Standardized Rent as % of Mean		
a Actual Units	97	
b Actual Units/2b	1 01	
c b*Initial Rent (=Standard Rent)	$1,114	
d Median Income	$46,300	
e c/(Median Income/12)	28 9%	
6. Affordability Level		
a Initial Standard Rent (5c)	$1,114	
b (a/ 30)*12	$44,571	
c b/Median Income	96 3%	
7. Required Rent if Financed		
a Full Development Cost	$12,439,237	
b Equity	$2,042,408	
c a-b=principal	$10,396,829	
d Debt Service at Market	$941	
e Monthly Operating Cost + Reserve	$645	
f d+e=Required Rent	$1,585	
g Percent Increase Required	43 7%	
h Average Tenant Payment	$165	
i Percent Increase Required	857 9%	
8. PV of Subsidies and Donations		
a Grants and Cash Contributions	$161,900	
b Non-Cash Contributions	$4,074,579	
c Diff of PV of Actual & Market Loan	$156,682	
d a+b+c	$4,393,162	

DORSEY R. MOORE COOPERATIVE
Washington, D.C.

1. Overview

The Dorsey R. Moore Cooperative is a 41-unit, multifamily limited equity cooperative located in Anacostia, a low income neighborhood in southeast Washington, D.C. Anacostia is one of the target development areas for Manna, Inc., the sponsor of the cooperative. Manna is a ten year old nonprofit community development association which has provided a variety of services and developed hundreds of housing units in several low income neighborhoods in Washington.

The project, situated on a one-acre elevated site with views of the Potomac River and of downtown Washington, D.C., consists of 10 three-bedroom units in five newly-constructed townhouses, and 31 two-bedroom units in two rehabilitated garden apartment buildings. The surrounding neighborhood is residential in character, containing both multi-family apartment buildings and single family homes. Manna has developed several other properties in the area, including three new single family homes which it has just completed around the corner from the Dorsey R. Moore Coop. An important feature of the Dorsey R. Moore property is its location only two blocks away from the Green Line Metro stop (on the Washington subway system). It is expected that this feature will maintain and enhance the property value for the Cooperative owners, as well as help revitalize the neighborhood.

The residents of Anacostia are among the poorest in Washington, D.C. Unemployment, poverty, and drug-related crime problems characterize the area, particularly in public housing projects. One large project, Barry Farms, is located not too far from the subject property and has been notorious as a center of drug-related problems. The site itself was abandoned when Manna acquired it in 1988, and was inhabited by homeless alcoholics and crack cocaine users. Manna's renovation of the property resulted in a substantial improvement to the neighborhood.

Manna, seeking to develop a core of affordable housing units in the Anacostia area, first identified this site in 1987, acquired it in October of 1988, started construction in August of 1990, and had the project fully sold one month after completion in April of 1991. Several pieces of property were assembled to form the site, including the two three-story brick-faced garden apartment buildings and a vacant lot between them on which the townhouses and a parking area were constructed. The previous owner had at one point made an attempt to rehabilitate the property and it was partially gutted and framed. However, when he could not obtain adequate financing as a private developer, he sold it to Manna.

The residents of the Dorsey R. Moore Cooperative are all first-time homebuyers, and are all low income (less than 50% of the Washington, D.C. area median). Carrying charges for the coop are set at $536 for the two-bedroom units and $638 for the three-bedroom units, well below the market rents or mortgage costs for the area. Of the 41 families living at the coop, four can afford the monthly carrying charges without any subsidy, eight get assistance from the federal Section 8 program, thirteen get assistance from the District of Columbia's Tenant Assistance

Program (TAP), and sixteen families get assistance from Manna's Victory Housing Fund, a $125,000 grant which was given to Manna by the local Catholic Archdiocese specifically for this community.

A distinguishing feature of the Dorsey R. Moore development is that Manna's goal in creating the project was not just to provide housing but to create an environment which would motivate these low income subsidy recipients to pursue further education, job training, and work advancement. As part of this effort, Manna provided six mandatory coop training sessions for homebuyers, and offers continuing support and counseling in homeownership. The project also contains a day care center for working mothers and fathers and a community room which will contain a planned Home Study Center to further the educational goals of the owners.

A further distinguishing feature of this coop development is that this relatively small project ($2.9 million), taking into account both interim and permanent funding sources, had a total of ***22 financial sources*** (a combination of private and public grants and loans), in order to complete the funding requirements. This reflects the recent difficulty in obtaining real estate development capital, particularly for affordable projects.

2. Sponsor and Development Team

Manna, Inc., the sole developer and sponsor of this project, was incorporated in 1982 by the founders of For the Love of Children (FLOC), a nonprofit community support organization. FLOC, along with several similar organizations, realized that while they were helping low income families to regain some stability by providing social services, the families remained unable to find affordable housing. Manna was formed with the goal of acquiring abandoned, dilapidated properties and rehabilitating them to create attractive, affordable housing units.

Further, they wanted to produce this affordable housing ***and*** generate income in the process which could help support other community services. At first Manna hired no staff and relied on consultants for the development process. Over time, the organization has brought all development functions into the corporation, and now has a staff of 43 which handles acquisition, financial packaging, project and design, construction, and marketing. They have also achieved their goal of generating substantial income from housing related activities to sustain the organization with marginal operating support from government grants or assistance. Manna's total income in 1990 was almost $2.9 million.

Manna is considered an experienced developer of housing units in the Washington, D.C. area. Since inception in 1982, they have developed nearly 300 limited equity cooperative, condominium, and single-family ownership units. They concentrate in three neighborhoods in Washington: Shaw, the Northeast, and the Southeast (primarily the Anacostia area), the lowest income areas of the city. Manna's development philosophy is to create a critical mass of units within a small area to help stabilize neighborhoods, and to provide other services which will enhance job opportunities and skills of neighborhood residents. Toward this goal, Manna has developed several commercial properties: a community center and Manna office headquarters at 614 S Street NW, a restaurant at 305 E Street NW as a vehicle for job-training skills, and

independent and on-site day care centers. They are currently working on the redevelopment and rehabilitation of a large commercial building on 12th Street, which would serve as their new offices and act as an anchor in a blighted neighborhood. This project is currently being held up due to a lack of financing.

Manna provides much of the development expertise for their projects in-house. They have engineers and architects on staff, as well as a planning, marketing and financial management team. For the Dorsey R. Moore Cooperative, Manna used outside legal counsel The law firm for the project was a local Washington real estate firm which has been Manna's long-standing legal counsel and charges a reduced rate of around $65 per hour for most legal work. Also, for this project, legal services to resolve zoning issues were donated by another firm which specializes in zoning issues. Although Manna initially used a third party contractor, the nonprofit eventually acted as its own General Contractor for the project. Much of the design work for the project was also performed in-house.

Manna also has a revolving operating capital loan fund called the Capstone fund, which is very important to their development efforts because it provides them with capital to provide short term or gap financing needed to purchase, hold, and renovate properties. Manna receives loans and contributions from individuals, church congregations, foundations and businesses ranging in size from $1,000 to $100,000. Manna pays the investors an interest rate of their choice ranging from 0% to 6%. The average rate paid is 3%. Of the $1 million balance in the Capstone Fund at the end of 1991, $700,000 was donated capital and the remaining $300,000 was loaned Manna also has had several lines of credit which, together with the fund, enables them to respond more quickly than other nonprofit developers to acquisition opportunities or cash flow fluctuations. The Moore Cooperative project was able to go forward on the basis of Manna's ability to contribute its own capital; when construction/interim financing fell short of the amount needed, Manna was able to contribute over $700,000 in equity to carry the project until permanent financing was closed.

3. Pre-development Period

Manna acquired the site in October of 1988 after having been directly approached by the owner about a year earlier. The owner had been trying to redevelop the site himself but was unable to obtain financing and needed to sell. The property had been a source of serious neighborhood problems for the previous eight years. It had a total of $92,000 in outstanding liens against it, was used as a trash dump, and was occupied by drug addicts and homeless alcoholics.

The initial acquisition cost of $341,000 was financed with a $200,000 loan from the D.C. Department of Housing and Community Development, a $96,000 seller take-back, and $45,000 from Manna's Capstone Fund to fill the gap. There were a number of existing liens on the project which Manna had a difficult time clearing; eventually the city forgave most of the liens and Manna paid the others off but the process delayed the project by a year. To illustrate just one of these problems, the day after settlement, the Department of Public Works sent workmen to clean up debris and board up the property. Manna was assessed a $10,000 lien for the work, in addition to the liens which they had just cleared. Although the previous owner had probably

been notified before transfer of the title, he failed to notify Manna who, as the owner, was legally liable. Manna had made arrangements to do the work that week, but not that day. The city finally forgave this lien, but not until early 1990 almost at the start of construction.

Further, there were a number of property tax issues, zoning problems, and utility (water and sewer) access issues that Manna had to contest with the city before they could go ahead. Manna had to obtain the donated expertise of the premier zoning law firm in the District to overcome the zoning and access obstacles. They were not given any waivers other than the lien waivers, except for a one-year exemption from real estate taxes during construction which is granted to all nonprofits who purchase a property for eventual resale to low income families.

Manna conducted a formal feasibility process using their in-house staff to conduct marketing and pricing analysis, develop pro forma cash flows, and prepare preliminary architectural and design plans. These predevelopment costs were paid for in large part by a $49,900 seed money loan from LISC. This loan was at a subsidized rate of 6%, and was due upon closing of the permanent/construction financing, but was forgivable in the event that the project was found to be infeasible and did not go forward.

4. Construction Financing

The funding sources for the Moore Cooperative project were numerous, both for the interim/construction sources and for the permanent funding Construction sources and terms were as follows:

- **First Mortgage, American Security Bank (ASB), $1,536,000:** This was a conventional construction loan with a 1% financing fee and an interest rate of Prime +1%. The loan was for the duration of the construction period and was extended several times when the closing of the permanent financing took longer than expected. The appraisal on the property did not support the requested loan amount, so ASB required Manna to contribute equity for the interim financing for the project.

- **Manna Equity, $707,300:** Manna contributed this equity until the permanent financing was in place, to fill the financing gap and as a condition to obtaining the ASB loan. It was required by the bank to be equity and not a loan to the project. The $707,300 all came from Manna's Capstone Fund and not from any Manna operating funds. This was a very large amount of money for Manna to invest in a project for a year or more, it significantly reduced the balance of the Capstone Fund available for acquisitions and other short-term uses for which it is intended. Manna would have preferred to borrow the money as part of the construction loan and put it in themselves as a last resort.

- **D.C. Housing Department (DCHD) Loan, $200,000:** This loan was non-traditional since it was not part of any regular D.C. housing lending programs. Manna had applied for the Department's Land Acquisition and Housing Development Program (LAHDO), but it had run out of funds so the Department

loaned them the $200,000 out of general funds. The loan was to be only for the construction period but at Manna's request the loan was extended as permanent financing (see permanent financing section) During construction, there was no interest on this loan.

- **Seller Take-Back, $71,000**: The seller took back a note in this amount The note bore no interest, and was to be repaid only from the proceeds of sale of the units. Proceeds were to be paid on the seller note as follows: $1,000 for each rehabbed unit sold, and $4,000 for each newly constructed unit sold. Manna was under no obligation to pay more for each unit if the project did not sell out, or to repay the seller note partially or entirely if no units sold.

- **Manna Deferred Development Fee, $69,300**: Manna deferred their development fee until the permanent loan was in place. Many lenders require this, in a for-profit or nonprofit project, if they are not comfortable with the loan to value ratio or if gap financing is needed, so this would not be considered a subsidy to the project.

- **LISC Bridge Loan, $49,900**· As described in the predevelopment section, LISC provided this loan to help fund predevelopment costs. The loan bore a 6% rate of interest, had no financing fees associated with it, was due at closing of the permanent financing, and was forgivable in the event that the project did not go forward.

- **Private Grants, $75,000**: Two private grants were made to the project at the construction stage. One in the amount of $55,000 was made by the Oliver Carr Co., a large local developer. This money was available through a local housing policy initiative known as "linkage", whereby commercial developers in return for certain density of other allowances have to give money to a pool of affordable housing funds, which are administered by the city and can be used anywhere in the city. The other grant was in the amount of $20,000 by the Phillip Grahm Foundation, which funds day care centers for low income neighborhoods The Moore Cooperative contains an on-site day care center.

5. Construction Period

The construction period was originally projected to be seven months, starting in April 1990 and ending in October of 1990. The actual construction period took a little longer than originally projected, about 8 months. Due to delays in obtaining permanent financing the construction did not actually start until August of 1990, and finished in April of 1991. No relocation was necessary, as the project was not occupied.

The site did require extensive grading since it was located on a hilltop, and a lot of landscaping was necessary after the grading since the site was barren. Retaining walls had to be constructed above the parking lot since there were runoff problems. Utility hook-ups were necessary since the utilities had been cut off and since new units were being constructed. Grants

in the amount of $56,000 were made by the local gas company and the local electric company to help with the utility infrastructure. None of the site prep work or unanticipated problems caused major delays, and all associated costs were within the original budget. The total construction cost was $2,027,000. The project itself and finished on time and on budget despite some earlier delays.

6. Permanent Financing

The major delay in completing the Moore Cooperative project was the difficulty Manna experienced in obtaining a $1.3 million loan for the permanent financing. As is illustrated in the financing sources list below, Manna had substantial grants and government loans in place for the permanent financing, but still needed $1.3 million in permanent loan capital.

They originally applied in late 1988 for a loan from Columbia First (a local bank) under the new Federal Home Loan Bank System's (FHLB) Affordable Housing Program (AHP). Unfortunately, the bank changed hands and even though Manna's project had been selected by the FHLB to participate in the program, the new bank president took another six months to evaluate and make a decision on the loan. A commitment was finally issued by Columbia a year later in August of 1990, but it required full payment guarantees by Manna, which Manna would not accept (because such guarantees would have effectively curtailed the organization's capacity to do other projects). Manna then went through an exhaustive process, with the cooperation and help of the Federal Home Loan Bank of Atlanta which is involved in administering the AHP loan program, of submitting applications to another 10 or 15 banks. Finally, in late 1991 a commitment under the program was obtained from First American Bank as the lead lender, along with Independence Federal and Chevy Chase Federal, two other local lenders.

The amounts and terms of the permanent financing sources are as follows:

- **FHLB Loan, $1,300,000**: This loan, obtained as described above, carries an 8.75% interest rate, amortized over a thirty year term. The loan is due in 20 years. There were no financing points associated with the loan. The loan went to pay off the seller note, part of the construction loan and part of Manna's equity.

- **D.C. Department of Housing, Housing Purchase Assistance Program (HPAP), $812,000**: This program, funded by CDBG funds, is a non-interest bearing loan collateralized by a blanket mortgage on the property. The loan is not amortized. This program is project-based but allocates funds on the basis of an up to $25,000 interest-free loan to each buyer whose income is less than 50% of the median income of the District. Manna was eligible for $812,000 of these funds, which went to help retire the construction loan, Manna's equity and other costs. This is a third trust on the property.

- **D.C. Housing Department Loan, $200,000**: As discussed in the construction financing section, this loan which was used for acquisition was extended by the District as a permanent financing source. The extension was for ten years, at a

subsidized rate of 1% interest, with payments amortized over ten years. The loan can be extended for another ten year option, and carried no financing fees. This loan occupies a second trust on the property.

- **D.C. Housing Production Trust Fund, $183,000:** This is another subsidized loan from the D.C. Housing Department, which occupies a fourth trust position. The loan bears interest of 1%; is amortized on a 30-year schedule; and is due in 20 years. Payments are deferred for the first two years.

- **Private Grants, $131,000:** Private grants, described in the construction and construction financing sections, were: $55,000 from the Oliver Carr Company contributed from the linkage program; $20,000 in a private day care grant; $15,000 from the Washington Gas Company for utility work; and $41,000 from PEPCO, the local electric company, for utility work.

- **Public Grant, $60,000:** The District Housing Department contributed $60,0000 toward the day care center under its Housing Production Trust Fund

- **Owner's Equity, $23,000:** Downpayments from owners in the amount of $23,000 were used as a permanent funding source.

7. Sales and Occupancy

The sales process proceeded extremely fast due to Manna's advance work at buyer recruitment, screening and selection, and pre-occupancy training, and the project was fully sold one month after completion. Manna maintains a list of families needing housing from all over the city, including from Section 8 and other waiting lists. Since successful homeownership and long-run success is their goal, they very carefully screen potential buyers for financial soundness and other qualifications after marketing the units to those on Manna's list. Seventy-five percent of the buyers are from the Southeast portion of the District.

The management agent for the property is a well-known management company in the Washington area. Manna selected them after interviewing several property managers. The firm receives a management fee of $34 per unit per month.

8. On-going Operations

As detailed in the overview section, residents receive subsidies from Section 8, Manna's private subsidy fund, and subsidies from the D.C. government. There is project-based assistance in the form of the HPAP $812,000 loan, described above, along with other subsidized financing sources.

Although the project has several owners who are delinquent on their payments, the coop board is taking action to deal with the problem. Manna is helping the members of the coop to eliminate this problem by getting together and in Manna's words, getting "tougher" with these

members who are delinquent. A newly-elected coop board has instructed the management company to take delinquent owners to court. This decision is having the desired effect. The project's reserves after the first year of operation are approximately $70,000

9. Other Activities by Nonprofit Sponsor

In addition to their housing development activities, Manna provides programs to employ and train men and women for construction-related jobs, and several programs which train low income families to be successful homeowners. Manna's Skill Builders program selects unemployed or underemployed men and women to train for construction jobs, then assists them in finding employment. Their Mutual Homebuyers Club is a very successful voluntary association comprised of small local chapters which support and counsel low income families wishing to become homeowners, then continues that support once they become homeowners This program has been so successful that Manna is under contract with the Neighborhood Reinvestment Corporation to assist community groups in replicating the Homebuyers Club in more than a dozen other cities.

As mentioned in the overview, Manna does provide coop counseling directly to the Moore Cooperative residents, and residents are eligible to be members of Manna's Homebuyers Club. Funds for the counseling come from Manna's funds for activities in this area. A day care center is on the property, operated by an outside entity, and funded by grants and revenue Manna will also, using grant money, complete its plans to have a Home Study Center in the community room at the property to further the educational goals of the owners. While Manna has not attempted to document this activity in any formal way, they feel strongly that their counseling programs make better homeowners.

10. Development Costs/Analysis of Data

There were numerous financing sources, both public and private, for this project. Exhibit 1 presents a summary of total development sources and costs. The exhibit also shows the value of non cash resources and other subsidies obtained during the development period.

- **Private Grants**: During the development period, $75,000 in cash grants were received from linkage funds and a foundation. These are included in the $191,000 in permanent grant sources.

- **Other Donations:** The project had donated legal time in the amount of $57,400, a one-year tax rebate in the amount of $29,300, and lien waivers in the amount of $25,000.[1]

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[1] Legal fee donations estimated by non-profit staff, tax rebate actual, lien waivers estimated by case study author

- **Contributed Staff Time of $87,000**: The estimate of the value of Manna staff time contributed to this project includes 2,800 hours of a development associate's time at $25 per hour, 200 hours of management personnel at $40 per hour, and 300 hours of design staff at $30 per hour.

- **D.C. Housing Dept. Loan of $200,000**· This loan was provided interest-free during the construction period. Assuming it was all drawn at the beginning of the construction period since it was used for acquisition, the interest on this loan using the same interest rate and construction period assumptions would have been $13,400 during the development period. Adding one point would yield a total of $15,333.

- **LISC Loan**: LISC loaned the project $49,900 in a non-recourse, 6% loan to cover pre-development costs. Assuming this would have been drawn out up-front, the value of the interest subsidy on this loan was $1,829 during the development period.

- **Seller Take-Back**: The take-back note, which was non-interest bearing, non-recourse, and payable only upon actual sale of the units if sales occurred, may or may not be considered a subsidy to the project. It is common practice in private sector or market rate developments to have similar notes, where part or all of the seller's desired price becomes an "earn-out" upon certain successes of the project. This can be construed as ***not*** being a subsidy because the seller could choose to walk away if not satisfied with the up-front price, rather than agreeing to this type of note. In these situations, the current market value of the property is probably not enough to support the seller's desired price, so it is arguable as to whether this type of note is a subsidy.

  If the take-back note in the Moore Cooperative project is considered a subsidy, there are two components of value. First, the original note was in the amount of $96,000 based on what the seller considered to be the value of the property. The repayment was based on $1,000 per unit as each rehab unit was sold, and $4,000 per unit as each new unit was sold. However, the unit configuration was later changed and the number of units reduced, so the equivalent total amount that could be paid based on the new number of units was reduced to $71,000, the basis of the amended note and final payment. The difference between the original value of the note and the final payment was $25,000, and could be considered a subsidy. However, this is not included as a subsidy for purposes of Exhibits 1 and 2. This property was abandoned and the deal would never have taken place were it not for all the nonprofit related subsidies, so the seller really was lucky to get any reasonable "market price'.

  The second component of value is the interest rate subsidy on the take-back note. Assuming all the funds would have been drawn out at the beginning of the project, was $4,733. One point would be $710, for a total of $5,443. This is included as a subsidy for purposes of Exhibits 1 and 2.

- **"Equity" Contributions:** Manna, Inc., the nonprofit sponsor of the project, contributed $707,300 of its own equity to the project at a zero return, to fill the gap in funds and to satisfy the underwriting requirements of American Security Bank, the construction lender. This was not made as a loan to the project; the construction lender wanted to see Manna's funds going directly into the project as equity for their underwriting. However, the value of this equity, if it had to be borrowed until permanent loan closing (20 months) at 10% at a 50% outstanding balance, was $58,942 during the development period. A one percent loan fee would add $7,073, for a total of $66,015.

  Note that Manna's "Equity," the LISC loan subsidy and the seller note are not permanent financing sources, but are included here because they provided subsidies to the project during the development period which are part of project total cost.

Exhibit 2 provides summary financial statistics on the project, including the present value of subsidies and contributions. These include grants, non-cash contributions, and the following long term loan subsidies:

- **D.C. Housing Department Loan:** The D.C. housing loan for $200,000 carries a nominal 1% rate of interest for a 20 year term.

- **FIRRHEA Loan:** This affordable housing Bank Board loan in the amount of $1.3 million carried a rate of 8.75% for a twenty year term, with the payments amortized on a 30 year schedule.

- **D.C. HPAP Loan:** This loan, in the amount of $812,000, was non-interest bearing.

- **D.C. Housing Production Trust Fund Loan:** This loan, in the amount of $183,000, was non-interest bearing for a twenty year term.

In all cases the subsidy is calculated as the difference between the present value of actual loan payments and the payments that would have been made on the same size loan at 10% interest for 30 years.

EXHIBIT 1

Sources and Uses of Cash and Non–Cash Resources

Dorsey R. Moore Apartments

I. Sources of Funds	Cash	Non–Cash	Total
1 Grants/Donations		$111,700	$111,700
2 Linkage (Oliver Carr Company)	$55,000	$0	$55,000
3 Day Care Grant	$20,000	$0	$20,000
4 Washington Gas Company	$15,000	$0	$15,000
5 PEPCO	$41,000	$0	$41,000
6 District Housing Department	$60,000	$0	$60,000
7 FIRRHEA Permanent Loan	$1,300,000	$0	$1,300,000
8 D C Housing Loan/CDBG	$812,000	$0	$812,000
9 D C Housing Loan–Acquisition	$200,000	$15,333 [1]	$215,333
10 D C Housing Production Loan	$183,000	$0	$183,000
11 Owner's Equity (downpayment)	$23,000	$0	$23,000
12 LISC Loan Subsidy	$0	$1,830 [2]	$1,830
13 Seller Note	$0	$5,443 [3]	$5,443
14 Manna "Equity" Subsidy	$0	$66,015 [4]	$66,015
15 Staff Time Contribution	$0	$87,000	$87,000
TOTAL	$2,709,000	$287,321	$2,996,321

II. Uses of Funds	Out–of–Pocket	Non–Cash Contribution	Total
Planning and Design	$55,100	$57,400	$112,500
Acquisition	$326,300	$25,000	$351,300
Finance/Carrying Charges	$112,500	$88,621	$201,121
Relocation	$0	$0	$0
Construction	$2,042,100	$0	$2,042,100
Real Estate Taxes	$0	$29,300	$29,300
Marketing	$61,000	$0	$61,000
Reserves	$0	$0	$0
Legal and Organization (including Development Consultants)	$23,000	$0	$23,000
Developer's Overhead/Staff	$0	$87,000	$87,000
Developer's Fee	$89,000	$0	$89,000
Syndication Costs	$0	$0	$0
TOTAL	$2,709,000	$287,321	$2,996,321

III Contributions	Cash	Non–Cash	Total
TOTAL	$191,000	$287,321	$478,321

Notes
1 200,000*1 0% + 200,000*10 0%*8/12
2 49,900*1 0% + 49,900*0 04*8/12
3 71,000*1 0% + 71,000*10 0%*8/12
4 707,300*1 0% + 707,300*10 0%*20/12*0 5

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EXHIBIT 2

Summary of Financial Data Analysis

Dorsey R. Moore Apartments

		%
CASH EQUITY	$214,000	7 1%
DEBT FUNDS	$2,495,000	83 3%
NON–CASH RESOURCES	$287,321	9 6%
TOTAL RESOURCES	$2,996,321	100 0%
Percent Public Resources	$1,379,633	46 0%
Percent Private Resources	$1,616,688	54 0%
OUT–OF–POCKET COSTS	$2,709,000	90 4%
VALUE OF SUBSIDIES AND DONATIONS	$287,321	9 6%
FULL COST (Including Subsidies and Donations)	$2,996,321	100 0%

COSTS BY CATEGORY		%
Planning and Design	$112,500	3 8%
Acquisition	$351,300	11 7%
Finance/Carrying Charges	$201,121	6 7%
Relocation	$0	0 0%
Construction	$2,042,100	68 2%
Real Estate Taxes	$29,300	1 0%
Marketing	$61,000	2 0%
Reserves	$0	0 0%
Legal and Organization (including Development Consultants)	$23,000	0 8%
Developer's Overhead/Staff	$87,000	2 9%
Developer's Fee	$89,000	3 0%
Syndication Costs	$0	0 0%
TOTAL	$2,996,321	100 0%
LAND COST ESTIMATED	$83,927	
TOTAL LESS LAND COSTS	$2,912,394	

	Including Land	Without Land
Normalized Full Cost (Location and Year)	$3,067,929	$2,981,997
Normalized Standard Unit Cost	$56,823	$55,232
Initial Rent	$561	
Initial Rent as a Percent of FMR	72 3%	
Initial Standardized Rent	$426	
Initial Standardized Rent as a Percent of Median Income	8 6%	
Affordability Level	28 8%	
Required Rent if Fully Market–Financed	$866	
Percentage Increase Required Over Actual	54 3%	
Percentage Increase Required Over Tenant Payment	95 0%	
Present Value of Subsidies and Donations	$1,625,468	

WORKSHEET

Dorsey R_Moore Apartments

1. Normalized Full Cost	*with land*	*without land*
a Full Cost	$2,996,321	$2,912,394
b Time Factor	1 02	1 02
c Location Factor	1 00	1 00
d a*b*c	$3,067,929	$2,981,997
2. Number of Standard Units		
a Total Square Feet	45,568	
b a/844	53 99	
3. Normalized Standard Unit Cost		
a 1d/2b	$56,823	$55,232
4. InitialRent as a Percent of FMR		
a Initial Rent (wgted by avg unit size)	$561	
b FMR	$776	
c a/b	72 3%	
5. Initial Standardized Rent as % of Mean		
a Actual Units	41	
b Actual Units/2b	0 76	
c b*Initial Rent (=Standard Rent)	$426	
d Median Income	$59,200	
e c/(Median Income/12)	8 6%	
6 Affordability Level		
a Initial Standard Rent (5c)	$426	
b (a/ 30)*12	$17,041	
c b/Median Income	28 8%	
7 Required Rent if Financed		
a Full Development Cost	$2,996,321	
b Equity	$23,000	
c a−b=principal	$2,973,321	
d Debt Service at Market	$636	
e Monthly Operating Cost + Reserve	$229	
f d+e=Required Rent	$866	
g Percent Increase Required	54 3%	
h Average Tenant Payment	$444	
i Percent Increase Required	95 0%	
8 PV of Subsidies and Donations		
a Grants and Cash Contributions	$191,000	
b Non−Cash Contributions	$287,321	
c Diff of PV of Actual & Market Loan	$1,147,147	
d a+b+c	$1,625,468	

FLORIAN GARDENS COOPERATIVE
Washington, D.C.

1. Overview

The Florian Gardens Cooperative is a 43-unit limited appreciation nonprofit cooperative located in the Brightwood neighborhood in Washington, D.C., and organized under the Columbia Cooperative Association Act (D.C. Code Section 29-1101 et seq.). Florian Gardens consists of three 3-story buildings which were purchased from the former owner in May 1989 and underwent substantial rehabilitation from August through December, 1990. Of the 43 units, 41 are occupied by members of the cooperative, and two units are inhabited by senior citizens who remained in the development under the provisions of statutory tenancy. An estimated 25 percent of the units are held by households with very low incomes (less than 50 percent of area median income), 70 percent by households with low incomes (less than 80 percent of area median income) and 5 percent by households with moderate incomes. The project director estimates that approximately 4-6 of the current households utilize tenant-based Section 8 vouchers.

2. Sponsor and Development Team

This rehabilitation project was developed by the Florian Gardens Tenant Association, with co-sponsorship and extensive technical assistance from Project WISH (Washington Innercity Self Help, Inc.). Project WISH is a nonprofit which was organized in 1978 in response to the "swelling ranks of low income residents being displaced by condominium conversion and exorbitant rent increases"[1], and has a primary target area of north-central Washington, D.C. WISH evolved from Christian Communities Committed to Change, a group of ten Catholic parishes which focused on social services to the elderly. This initial core was eventually joined by 30 other churches in sponsorship of Project WISH. Originally, the focus of Project WISH was tenant organizing and advocacy for city policies to protect tenants and to promote affordable housing development. In 1982, however, Project WISH was selected to participate in AETNA Life and Casualty Company's Neighborhood Investment Program, which provided operating support and attractive financing for affordable housing development. WISH brokered the AETNA financing and city subsidies, and worked with tenant and neighborhood groups to facilitate two rehabilitation projects involving 146 units (1400 R Street NW and 2620 13th St NW). In 1986, WISH entered a new phase of its housing development experience, in which it began to undertake projects without a private developer/co-sponsor. Prior to Florian Gardens, WISH had tackled two projects in its new role, a 22-unit project at 1447 Chapin Street and a 27-unit project at 2201-7 Champlain Street. Both projects involved coop conversions, which is a common WISH strategy to promote resident empowerment and stability in properties with which the organization works.

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[1] Washington Innercity Self Help, 1992 Annual Report, p. 8.

In addition to Project WISH and the Florian Gardens Tenant Association, the development team for the Florian Cooperative included several other actors Architectural services for the project were provided by a firm that previously had worked on several low income housing projects in the District of Columbia area and was the lowest of three bidders for the design work. The project had also had some preliminary building analysis performed by another company. Legal services were provided by a law firm with extensive experience in Washington, D.C. tenant-sponsored coop conversions; these legal services were supplemented by WISH's project director, who is also an attorney. The general contractor selected for the rehabilitation work was the low bidder and had done a number of similar renovation projects with tenants in place; they also enjoyed an excellent reputation among nonprofits in the Washington, D.C area.

3. Pre-development Period

In contrast to some of the neighborhoods in north-central Washington D.C , like Adams-Morgan, where rapid gentrification and speculation have displaced many of the low income households and eliminated much of the affordable housing, the Brightwood area in which Florian Gardens is located is a relatively stable, working class neighborhood, predominantly made up of minority families. The housing stock is primarily owner-occupied single family homes (largely row houses, but some detached). There also are several small apartment buildings in the surrounding area. The neighborhood contains a local junior high school, churches, numerous stores, bank branches, medical centers, a library and a district police station, as well as good public transportation. Overall, it is a very stable housing market, with few condominiums or cooperatives.

The Florian Gardens Apartments, which were built in 1955, reflected this stability. In 1988, an estimated forty percent of the tenant households had been residents for more than ten years, and another twenty-one percent had been tenants for more than five years. Approximately eighty-eight percent of the tenant households were working, with the balance receiving retirement benefits. Forty-two percent of the households had children. Rents for the one- and two-bedroom units ranged from $280-$525, reflecting the wide variation of rents charged under rent control in the District of Columbia.

In early 1988, the tenants of Florian Gardens received notice that their buildings were being put up for sale by the property's owner after a relatively short period of ownership It was feared by the tenants that a continuing turnover of private owners would drive up the costs of owning and maintaining the property, and therefore the rents[2]. Under Washington, D C law, however, existing tenants have the first right of purchase, by matching any other offers received. The Florian tenants had heard representatives of WISH speak about tenant purchase on a radio show, and contacted the group for assistance in the purchasing, conversion, and rehabilitation process One aspect of the WISH strategy for cooperative conversions is that the converted building be put into good enough condition so that no major repairs will be required

[2] When properties are re-sold or refinanced, and the debt service increases, owners can apply for a rent increase through a "hardship petition" under the District's rent control rules.

during the subsequent ten years, in part reflecting the predilection of local lenders who serve as the source of financing for such conversions.

WISH and the tenant association enlisted the services of a private firm in June 1988 to perform an initial inspection of the buildings and an assessment of required renovations, from which an initial estimate of $1,825,368 for the acquisition and rehabilitation was developed. In September 1988, a purchase and sale agreement was negotiated, with the purchase price set at $550,000. As part of this P&S agreement, the tenant association put down a refundable $5000 deposit borrowed from the Washington Area Community Investment Fund WISH and the tenant association then began the process of developing more detailed architectural and cost specifications, and of seeking financing. These efforts were given a boost in December 1988 with a receipt of a pre-development recoverable grant from the Washington, D C. branch of LISC (Local Initiatives Support Corporation). This grant of $38,500 was to be utilized for outside professional services.

4. Construction Financing

In early 1989, loan applications were submitted to the Riggs National Bank, Citicorp, and American Security Bank, all of whom were familiar with WISH as a result of the group's involvement in Community Reinvestment Act meetings with each bank Applications were also submitted to the D.C. Department of Housing and Community Development (DHCD) for funding under the city's Rental Rehabilitation Program (RRP) and CDBG-funded First Right to Purchase program, and to the D.C. Local Development Corporation (DCLDC) for funding from the Home Purchase Assistance Program (HPAP).

In the spring of 1989 the project secured a bridge loan from the National Coop Bank Development Corporation for $566,000 (at the NCBDC's commercial rate plus 1%) This bridge loan was sufficient to cover acquisition and associated closing costs. The tenant association acquired the property in May 1989. As a nonprofit cooperative, the project was judged to be exempt from the 1% transfer tax and 1% recording tax, saving the development approximately $11,000.

In July 1989, the Florian Tenant Association and WISH were able to obtain a $316,000 loan from LISC, which had a line of credit with the American Security Bank, at the bank's base rate minus one percent. The LISC loan, together with a $250,000 DHCD First Right to Purchase loan (at 9% interest), was used to "take out" the principal of the NCBDC's bridge loan; interest on the NCBDC bridge loan was paid out of operating revenues from the property.

The project received a private construction loan from the Riggs National Bank of $983,575 (of which $ 972,714 was eventually drawn down for construction financing) This was matched by $107,943 in Cooperative equity, derived from the cooperative subscription fees and rent receipts during the construction period.

In addition, the Florian Cooperative received from DHCD a Rental Rehabilitation Program allocation of $36,500, much less than the $294,000 the project had originally requested. Moreover, approval of these RRP funds was not received until August 1990, which delayed

closing on the construction loan for the better part of a year. Delays of this sort were seen as typical of projects involving city funding and were cited as a reason why many nonprofits were reluctant to seek city funds for their projects.

On the other hand, the permitting process for the project was relatively easy Since the project did not involve new construction or reconfiguration, the architect had no trouble "pulling" the building permit. The project also had the active support of the local city council member for this portion of the District, who made an effort to facilitate city approval processes.

5. Construction Period

Construction began in August 1990. The rehabilitation work focused on replacement of windows, installation of a new gas furnace, new wiring, roof replacement, new apartment entry doors and an intercom system, addition of hot water heaters, landscaping and outdoor repairs, and partial renovation of kitchens and bathrooms. An additional unit was created in the basement of the building, as well as a small community room of approximately 400 square feet.

There was no relocation necessitated by the rehabilitation work. Residents were able to remain in their units during the renovations because the contractor was very adept at scheduling the work to minimize inconvenience to the tenants.

The project had six change orders covering additional bathroom, kitchen and landscaping work, which were initiated at the residents' suggestions when it became obvious that the project was operating under-budget. All these additional items were covered by the fifteen percent contingency allowance built into the construction budget.

Construction was completed according to schedule in December 1990. Final out-of-pocket direct construction, permitting, and bonding costs were $890,552, including $42,269 for asbestos and oil tank removal. Interest during construction was $47,778.

6. Permanent Financing

Permanent financing for the project came from several sources. The Florian Cooperative received a $665,000 award from DCLDC's Home Purchase Assistance Program. Although structured as a 30-year loan, these funds are treated as a grant so long as the project replaces any cooperative members who leave with other income-eligible cooperative members. These funds were used to "take-out" the DHCD First Purchase and LISC/American Security Bank loans. The project also received a $15,050 grant from the District of Columbia Natural Gas Company. The Rental Rehabilitation Program award of $36,500 stayed in the project as permanent financing, as a no-interest non-amortizing declining principal 20-year loan (with 50 percent of its value ultimately due upon sale).

Finally, the Riggs National Bank's construction loan was rolled over into a permanent loan of $941,909, with an amortization period of 30 years, a term of 15 years, and an interest

rate of 11%[3]. The project had sought a 10% interest rate from Riggs under the Community Reinvestment Act, but the sponsors still felt satisfied with the terms received from Riggs Bank According to the project director, if they had been a for-profit, they probably would not have been able to receive the financing from Riggs since the bank had been drastically reducing its non-CRA-related real estate loan activity after having suffered significant losses in the declining economy and real estate market. In fact, the Riggs loan was the first co-op loan ever made by the bank under its Community Reinvestment program.

7. Lease-up and Occupancy

Six households chose not to remain in their units following conversion to a cooperative. Two of these households received payments for moving expenses. The Florian Cooperative's Board of Directors identified new members to fill the vacancies created, aided by WISH's executive director, who had provided organizing assistance to Florian's tenant association and subsequently the cooperative. The project is currently fully occupied with more than 85% of the current residents remaining from pre-conversion, and all of the residents coming from the local neighborhood.

Unlike some nonprofits that continue to manage the properties which they have helped to develop, WISH has chosen not to take on any on-going property management functions in order to avoid jeopardizing its relationship with tenants and coop members. The Florian Cooperative therefore considered the options of managing the property themselves, or of hiring a private firm to manage the property under the supervision of the Florian Cooperative Board of Directors. The cooperative members concluded that their needs would be best met through the latter approach. The private for-profit firm selected by the cooperative receives a management fee equal to approximately six percent of operating revenues.

Average monthly per-unit carrying charges[4] for the twenty (20) one-bedroom units are $457, and for the twenty-three (23) two-bedroom units are $517. These figures represent twenty to fifty percent increases over the pre-conversion rents for unsubsidized tenants These increases do not seem to present a problem in terms of maintaining occupancy, however. As noted above, once the households which were vacated following conversion had been filled with new cooperative members, occupancy remained stable. This apparently reflects the situation that prior rents may have been artificially depressed by rent control below tenants' ability to pay, and the value which the current cooperative members see in their collective ownership of the property. This "value" is primarily non-financial, in the control which the coop members can exercise in decision-making, since the appreciation of a cooperative membership share is limited to $50 per share per year, and most are not in a position to file for interest and property tax deductions on their federal income tax.

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[3] The interest rate was fixed at 11% for the first five years, in years 6 and 11 the rate can be adjusted to reflect the bank's base rate at that time plus 1%.

[4] Actual tenant contract rents, gross rents including an allowance for utilities would range from $345 to $481 for the one-bedroom units, and $550 for the two-bedroom units.

8. On-going Operations

Although in the first few months following rehabilitation the Cooperative experienced expenses which exceeded its operating budget for the period, the project had sufficient cash flow to cover these overages. Florian Gardens is currently operating "in the black". The effective gross monthly income for the Cooperative (including $1,325 in monthly tenant assistance payments and allowance for a 5% vacancy rate) is $19,987, or $239,846 per year. The Cooperative established a pre-funded reserve of $40,000 as part of the development funding, which it increases by 5% of gross revenues per year (3% for replacement reserve and 2% for operating reserve). Debt service is $8,970 per month on the permanent loan from Riggs Bank, or $107,640 per year. No interest or principal payments are required for the Rental Rehabilitation or HPAP loans The Cooperative has a debt service coverage ratio of 1.10.

9. Other Activities by Nonprofit Sponsor

Project WISH provided initial training to Florian Gardens Cooperative members on running effective meetings, increasing membership participation, selecting a management company, understanding legal documents, and knowing roles and responsibilities within a cooperative. Project WISH's general revenues covered the costs of this training, which was conducted on a quarterly basis for individual and groups of properties until receipt of special funding in 1991 permitted WISH to hire a full-time bi-lingual trainer and to offer sessions monthly. WISH staff continue to provide periodic general technical assistance to the Florian Gardens Cooperative relative to operating and finance issues.

To date, Project WISH has been involved with the development and training of eleven separate cooperatives. Moreover, a past president of the Florian Gardens Cooperative is also on the WISH Board of Directors, and as such, the Cooperative stays informed about and involved in a variety of WISH's other activities. In addition to its cooperative development efforts, Project WISH monitors local lenders' performance under the Community Reinvestment Act, was a key founding partner in the formation of the New Columbia Community Land Trust, and is engaged in a variety of organizing campaigns targeted to residents of public housing and federally-subsidized units, latinos, and tenants of expiring use properties.

10. Development Costs/Analysis of Data

There are several sources of non-cash contributions to the project:

- The construction period interest subsidy from the Rental Rehabilitation Program loan (assuming a lump sum draw down) and waiver of an origination fee totalled $1,885.

- The value of waived loan origination fees and development period interest subsidies for the LISC/American Security Bank loan and DHCD First Right to Purchase loan (assuming a lump sum draw down) totalled $13,678.

- Waived recording and transfer taxes of $11,000.

- The WISH project director's contributed time for legal work ($12,750) and an estimate of the WISH project director's and executive director's time on the project that was not covered by the Developer's Fee (approximately equal to 50 percent of the Developer's Fee).

- Over $13,000 in forgiven real estate taxes.

Summary financial data on this project are presented in Exhibits 1 and 2.

11. Summary and Sponsor Recommendations

Among the interesting features of this case study were the following:

- The percentage of public and private subsidy in the financing for this project was actually fairly modest. The key benefit realized seemed to be the **availability** of such financing, rather than favorable terms and conditions.

- Delays in securing the award from the city of a small Rental Rehabilitation Program grant ($36,500, or less than $850 per unit) held-up the closing of almost a million dollars of private construction financing for a year. The added costs attributable to this delay due to inflation and additional sponsor/developer staff time and interest expense ultimately may have exceeded the RRP award amount.

- This case also included some other examples of "added costs" that were associated with the public financing of the project. One of the conditions for receiving assistance from the District is that contractors must submit an affirmative hiring plan, which is then monitored through the submission of weekly cost certified payrolls. According to a representative of WISH, the reporting requirements are extensive and costly, and fail to make allowances for the fact that most contractors have their payrolls organized on a two-week basis. Consequently, although the affirmative hiring plan is meant to encourage the participation of minority and small contractors, the administrative requirements associated with it actually are seen as having the opposite effect. Similarly, it was noted that the District often takes 30-45 days for each draw approval, when contractors (and especially small contractors) want the money within a week of the architect's sign-off on the draw.

- Compared to some of the other case studies examined, this project had a relatively simple financing approach. Nonetheless, in addition to the cooperative member equity and non-cash contributions, this project utilized funding from eight different sources and involved three separate sets of closings (acquisition, construction, permanent) with associated settlement/transaction costs.

- Given the modest subsidy level received by the project, it is not surprising that the acquisition/rehabilitation resulted in significant monthly carrying cost (rental) increases, reported to be on the order of 20 percent to 50 percent for unsubsidized tenants.

- Project WISH emphasized training for the Florian tenant association/cooperative to empower the residents to serve as the formal nonprofit sponsor for the project. Functionally, however, the key "developer" tasks were carried out by Project WISH staff. This case, then, is similar to the pattern observed in several of the other nonprofit projects examined as part of this task order in that a more experienced nonprofit served in a "mentoring" role or more directly as de facto "developer" for the novice community-based organization, which was technically the "sponsor".

- Another similarity with other projects is the fact that the development fee did not cover the actual costs incurred by the nonprofit in its developer's role, and these costs had to be subsidized by the nonprofit's operating budget.

- In addition, Florian Gardens was an example of a project where the residents made the decision to have on-going management of the property performed by a private for-profit management company. WISH feels that if it were to perform property management functions the empowerment of the cooperative could be undermined and its relationship with the residents put in jeopardy.

EXHIBIT 1

Sources and Uses of Cash and Non–Cash Resources

Florian Gardens

I. Sources of Funds		Cash	Non–Cash	Total
1 Member/Coop Equity		$107,943	$0	$107,943
2 DC Natural Gas Grant		$15,050	$0	$15,050
3 Riggs National Bank Loan		$941,909	$0	$941,909
4 Rental Rehab Loan		$36,500	$1,886 [1]	$38,386
5 HPAP Loan		$665,000	$13,678 [2]	$678,678
6 Waived Taxes		$0	$11,000 [3]	$11,000
7 Project Operating Budget		$3,700	$0	$3,700
8 WISH Operating Budget		$0	$37,475 [4]	$37,475
9 Forgiven RE Taxes		$0	$13,411 [5]	$13,411
10 Non–Cash Developer's Fee		$0	$18,713	$18,713
11				$0
12				$0
13				$0
14				$0
15				$0
	TOTAL	$1,770,102	$96,163	$1,866,265

II Uses of Funds		Out–of–Pocket	Non–Cash Contribution	Total
Planning and Design		$28,707	$0	$28,707
Acquisition		$550,000	$11,000 [3]	$561,000
Finance/Carrying Charges		$184,993	$15,564 [1,2]	$200,557
Relocation		$700	$0	$700
Construction		$890,552	$0	$890,552
Real Estate Taxes		$0	$13,411 [5]	$13,411
Marketing		$13,000	$0	$13,000
Reserves		$40,000	$0	$40,000
Legal and Organization (including Development Consultants)		$12,700		$12,700
Developer's Overhead/Staff		$0	$37,475 [4]	$37,475
Developer's Fee		$49,450	$18,713	$68,163
Syndication Costs		$0	$0	$0
	TOTAL	$1,770,102	$96,163	$1,866,265

III. Contributions		Cash	Non–Cash	Total
	TOTAL	$18,750	$96,163	$114,913

Nominal Expected Rate for Combined Developer's Fee, Overhead, and Staff Costs as a Function of Total Development Costs Net of These Costs = 6 0%

Notes
1. 36,500*1 0% + 36,500*10 0%*5/12
2. (316,000+250,000)*1 0% + (316,000+250,000)*1 0%*17/12
3. Waived recording and transfer taxes
4. Project director's contributed time for legal work ($12,750) + estimate of project director's and executive director's time not covered by Developer's Fee (approximately 50% of Fee)
5. 550,000*1 54%*19/12

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Florian Gardens

		%
CASH EQUITY	$126,693	6 8%
DEBT FUNDS	$1,643,409	88 1%
NON-CASH RESOURCES	$96,163	5 2%
TOTAL RESOURCES	$1,866,265	100 0%
Percent Public Resources	$741,475	39 7%
Percent Private Resources	$1,124,790	60 3%
OUT-OF-POCKET COSTS	$1,770,102	94 8%
VALUE OF SUBSIDIES AND DONATIONS	$96,163	5 2%
FULL COST (Including Subsidies and Donations)	$1,866,265	100 0%

COSTS BY CATEGORY		%
Planning and Design	$28,707	1 5%
Acquisition	$561,000	30 1%
Finance/Carrying Charges	$200,557	10 7%
Relocation	$700	0 0%
Construction	$890,552	47 7%
Real Estate Taxes	$13,411	0 7%
Marketing	$13,000	0 7%
Reserves	$40,000	2 1%
Legal and Organization (including Development Consultants)	$12,700	0 7%
Developer's Overhead/Staff	$37,475	2 0%
Developer's Fee	$68,163	3 7%
Syndication Costs	$0	0 0%
TOTAL	$1,866,265	100 0%
LAND COST ESTIMATED	$233,000	
TOTAL LESS LAND COSTS	$1,633,265	

	Including Land	Without Land
Normalized Full Cost (Location and Year)	$1,910,866	$1,672,298
Normalized Standard Unit Cost	$50,866	$44,516
Initial Rent	$486	
Initial Rent as a Percent of FMR	71 5%	
Initial Standardized Rent	$556	
Initial Standardized Rent as a Percent of Median Income	14 6%	
Affordability Level	48 8%	
Required Rent if Fully Market-Financed	$594	
Percentage Increase Required Over Actual	22 3%	
Percentage Increase Required Over Tenant Payment	22 3%	
Present Value of Subsidies and Donations	$777,909	

WORKSHEET

Florian Gardens

1. Normalized Full Cost	*with land*	*without land*
a Full Cost	$1,866,265	$1,633,265
b Time Factor	1 02	1 02
c Location Factor	1 00	1 00
d a*b*c	$1,910,866	$1,672,298
2. Number of Standard Units		
a Total Square Feet	31,706	
b a/844	37 57	
3 Normalized Standard Unit Cost		
a 1d/2b	$50,866	$44,516
4 InitialRent as a Percent of FMR		
a Initial Rent (wgted by avg unit size)	$486	
b FMR	$680	
c a/b	71 5%	
5 Initial Standardized Rent as % of Mean		
a Actual Units	43	
b Actual Units/2b	1 14	
c b*Initial Rent (=Standard Rent)	$556	
d Median Income	$45,600	
e c/(Median Income/12)	14 6%	
6. Affordability Level		
a Initial Standard Rent (5c)	$556	
b (a/ 30)*12	$22,251	
c b/Median Income	48 8%	
7. Required Rent if Financed		
a Full Development Cost	$1,866,265	
b Equity	$107,943	
c a−b=principal	$1,758,322	
d Debt Service at Market	$359	
e Monthly Operating Cost + Reserve	$236	
f d+e=Required Rent	$594	
g Percent Increase Required	22 3%	
h Average Tenant Payment	$486	
i Percent Increase Required	22 3%	
8. PV of Subsidies and Donations		
a Grants and Cash Contributions	$18,750	
b Non−Cash Contributions	$96,163	
c Diff of PV of Actual & Market Loan	$662,997	
d a+b+c	$777,909	

RENAISSANCE APARTMENTS
Washington, D.C.

1. Overview

The Renaissance Apartments is a 36-unit multifamily rental project located in Southwest Washington, D.C. Total out of pocket costs for acquisition and renovation were roughly $40,000 per unit, financed largely through a private, market rate loan. Low acquisition costs (including forgiveness of unpaid taxes) and a $371,500 CDBG loan contributed to project feasibility. Although only 19 of the 36 units are reserved for low and moderate income households, in practice most of the tenants in the remaining "market rate" units have incomes close to 50 percent of median income. Initial rents for the Renaissance ranged from $495 (for assisted tenants) to $560 households paying the market rate.

2. Sponsor and Development Team

The developer and owner of the Renaissance Apartments is MUSCLE, Inc., an experienced non-profit organization which now functions as a city-wide, non-profit developer and intermediary. At the time of the Renaissance project, MUSCLE had six projects (114 units) under construction. Other members of the development team included a Virginia-based contractor and a local architect. The District of Columbia government was also an important actor in the project, providing low cost properties as well below-market financing

3. Pre-development Period

The "feasibility stage" for the Renaissance project began in December 1986 when the basic terms of the business deal were worked out between representatives of MUSCLE, Inc., the D.C. Department of Housing and Community Development (DHCD), and the D.C. Foundation for Vocational Training. (The latter organization held the development rights to one of the city-owned properties used in the project.) Key elements of the development plan included:

- MUSCLE would purchase notes held by Perpetual American Bank on two of the three buildings in the project for a total of $15,000. MUSCLE would then foreclose and obtain title.
- The city would transfer the third (middle) building to MUSCLE for $1 and forgive the bulk of back taxes and water and sewer charges on all three buildings. (MUSCLE's payment to the city was to be nominal—$25,000).
- The city, through its Distressed Property Program, would provide a 20-year low interest CDBG loan. The remainder of the construction financing would be

realized from equity (approximately $20,000 raised from donations) and from a conventional construction loan.

MUSCLE completed its application to the District's Distressed Property Program in May 1987. However, at this point the project just sat, according to a former MUSCLE Vice President who managed the project, because the city was "incapable of moving the program forward." According to the manager, the city's organization for housing projects was poorly structured and programs were narrowly conceived, resulting in the staff's inability to visualize a complicated project as a whole. Consequently, getting local government action required that each project be approached "like a crusade," including having an internal champion to push the project through the bureaucracy.

By the fall of 1987, the city finally began to move on the Renaissance project, and MUSCLE began the process of acquiring the properties. By the end of the year, MUSCLE had already foreclosed on the two privately-owned properties and gotten a commitment from American Security Bank for a construction loan of $996,000. However, the proceedings to acquire the city-owned building and obtain tax forgiveness took until June 1988 to conclude. Most of the delay was attributed to one city lawyer who, among other things, wanted to place liens against the property for the amount of forgiven taxes ($322,133) and for the "value" of the property (finally negotiated at $81,000). Since a lien (unlike a note) would take priority, this was unacceptable to MUSCLE and to the bank financing the construction. During the spring of 1988, the closing was delayed three times while MUSCLE tried to resolve the issue with DHCD. At one point, the MUSCLE board informed DHCD that it was withdrawing its application for the project—despite the fact that by that point MUSCLE had as much as $130,000 in cash invested in the project.

Ultimately, however, the closing took place in June of 1988. MUSCLE required DHCD to provide a supplemental CDBG loan of $25,000 to cover increases in the lump-sum construction contract due to city delays. The city also agreed to place notes on the properties for the above amounts, rather than liens. A third note ($332,133) is payable only on default of the developer's obligation to operate the project as low income housing. A fourth note ($81,000) will be forgiven after five years.

4. Construction Financing

Final sources of construction financing included the following:

- $19,401 in contributions from local sources.
- $996,000 mini-perm loan from American Security Bank. This loan carried an interest rate of 1 percent above base. Payments were to be interest only for two years, after which the loan was convertible to 30 years.

- $371,500 CDBG loan. This is a 20 year loan at 3 percent with payments amortized over 17 years and deferred until the beginning of year four.

- $25,000 supplemental CDBG loan. This was a 3 percent, 20 year loan with a 10 year amortization schedule beginning in year 10.

5. Construction Period

Once the acquisition was complete, the construction phase of the project went smoothly. Construction was completed in eight months (ahead of the bank's schedule), resulting in some interest savings. The construction also came in under budget, despite additional work needed to remove leaking underground storage tanks. As a result, the $25,000 CDBG supplement was not needed, and this money was never drawn down.

6. Permanent Financing

Permanent financing for the project—a FNMA loan obtained through Equitable Mortgage—was secured in November 1988. Final sources included:

- The FNMA loan of $1,070,000. This loan carries an interest rate of 9.875 percent for 10 years, after which the balance is to be refinanced.

- The CDBG loan of $371,500. Payments are deferred for three years, after which the loan amortizes at 3 percent over the remaining 17-year term.

- The $19,401 in charitable grants.

7. Lease-up and Occupancy

Certificates of occupancy for the Renaissance were received in January and February of 1989, and a grand opening was held in March 1989. The project was fully occupied by the summer of 1989.

Initial rents were set at $496 to $560 for the 2BR units. Tenants are typically near or below 50% of median income. Five of the units are reserved for tenants receiving local rental assistance (which is similar to Section 8). Rents for these units were $496. Another 14 units are reserved for low and moderate income tenants without subsidy, with rents set at $530. Of the remaining market rate units, 16 have rents set at $560 and one has a rent of $545.

8. On-going Operations

The project has been fully leased up for most of its history. As of early 1992, five units (14%) were vacant. To date, the project has been running a surplus. However, MUSCLE will begin making payments on the CDBG loan in 1993.

9. Other Activities by Non-profit Sponsor

The Renaissance Apartments includes a community room which houses a D.C. school sponsored "after hours" classroom. The facility contains reference books, audio-visual equipment and several computers and is open between 4:30 and 7:30 in the evening. No other on-site social services programs are provided to residents.

10. Development Costs/Analysis of Data

Exhibit 1 shows sources and uses of funds for the Renaissance project. Cash resources and corresponding out-of-pocket costs are shown in the first column of the exhibit. The second column shows a variety of non-cash contributions that constitute additional subsidies to the project during the development period. The latter include:

- The value of the interest subsidy associated with the CDBG loan. This is the difference between the amount paid during the eight month development period ($0) and the amount of interest that would otherwise have been paid on a conventional construction loan in the same amount ($371,500 x .10 x 8/12 x 5). This assumes a 10 percent interest rate and that the loan is drawn down in regular installments over the construction period (the reason for the .5 adjustment). We also add a loan fee of 1 percent since none was charged on the CDBG loan.

- An acquisition note for $81,000 from the city, to be forgiven after five years. This is essentially a grant.

- $322,133 in forgiven taxes and water and sewer charges. (The project carries a note payable to the city in this amount, due only on default. This is also essentially a grant).

- $65,000 in staff time, which, to the extent it is not covered from fee, may be considered a contribution.

- An allowance for the difference between actual developer's fee and a benchmark fee of 6 percent of TDC. The contributed fee is also reduced by the amount of staff time estimated for the project, so that the 6 percent is assumed to reimburse the non-profit for staff costs as well as to provide "profits" for use in future development projects.

The staff time estimate is fairly crude since no records of staff time were kept and the organization had no way of reconstructing these costs. The $65,000 figure is based on the project manager's belief that staff expenses had been fully recouped through the developer's fee, along with some allowance for profit. For the purposes of this analysis we have assumed that 75 percent of the actual fee reflects staff costs. Contributed fee is the difference between the 6 percent benchmark and the sum of the actual fee ($86,178) and estimated staff cost of $65,000.

Exhibit 2 presents summary financial data for the Renaissance, including various descriptive statistics used to compare the 15 case study projects.

As shown, the full cost of the project adjusted to 1991 dollars is $1,945,132, or about $55,000 per unit. When these figures are adjusted to reflect a standard 2BR unit (at 844 square feet), adjusted per unit development costs are $58,010 per unit. Average rents at the Renaissance were approximately 80 percent of the 1989 FMR, and only 12 percent of the area median income of $54,100. Average rents were affordable to households at the 40 percent of median level.

If MUSCLE had obtained market rate financing to cover the full cost of development (including non-cash items), rents would have to be about 20 percent higher to cover the added debt service. Excluding rental assistance payments (for five of the 36 units), rents would have to be 22 percent higher than the amounts actually paid by the residents

The capital value of project subsidies (other than rental subsidies) is $713,440, or about a third of the full development cost. This includes the value of grants ($19,401), non-cash subsidies ($484,231), and the difference between the present value of payments on the CDBG loan and payments on a fully amortizing loan at 10 percent interest.

11. Summary and Sponsor Recommendations

An important contributor to the success of the project was access to MUSCLE's in-house development fund. The Development Fund had been capitalized between 1985 and 1987 with $300,000 raised from national and local foundations and corporations. As noted above, at one point (when it looked like the deal was going to fall through), MUSCLE had over $130,000 invested in the project. Without its own source of up-front development money, MUSCLE could not have held out during the delays described above.

EXHIBIT 1

Sources and Uses of Cash and Non–Cash Resources

Renaissance Apartments

I Sources of Funds	Cash	Non–Cash	Total
1 Donations	$19,401	$0	$19,401
2 FNMA Permanent Loan	$1,070,000	$0	$1,070,000
3 CDBG Loan	$371,500	$16,098 [1]	$387,598
4 Acquisition	$0	$81,000	$81,000
5 Forgiven Taxes	$0	$322,133	$322,133
6 Staff Time	$0	$65,000	$65,000
7			$0
8			$0
9			$0
10			$0
11			$0
12			$0
13			$0
14			$0
15			$0
TOTAL	$1,460,901	$484,231	$1,945,132

II Uses of Funds	Out–of–Pocket	Non–Cash Contribution	Total
Planning and Design	$31,272	$0	$31,272
Acquisition	$47,041	$403,133	$450,174
Finance/Carrying Charges	$133,678	$16,098	$149,776
Relocation	$0	$0	$0
Construction	$1,050,919	$0	$1,050,919
Real Estate Taxes	$1,089	$0	$1,089
Marketing	$4,500	$0	$4,500
Reserves	$41,000	$0	$41,000
Legal and Organization (including Development Consultants)	$65,224	$0	$65,224
Developer's Overhead/Staff	$0	$65,000	$65,000
Developer's Fee	$86,178	$0	$86,178
Syndication Costs	$0	$0	$0
TOTAL	$1,460,901	$484,231	$1,945,132

III. Contributions	Cash	Non–Cash	Total
TOTAL	$19,401	$484,231	$503,632

Notes 1 371,500*1 0% + 371,500*10 0%*8/12*0 5

23–Oct–92 11 56 AM

EXHIBIT 2

Summary of Financial Data Analysis

Renaissance Apartments

		%
CASH EQUITY	$19,401	1 0%
DEBT FUNDS	$1,441,500	74 1%
NON–CASH RESOURCES	$484,231	24 9%
TOTAL RESOURCES	$1,945,132	100 0%
Percent Public Resources	$790,731	40 7%
Percent Private Resources	$1,154,401	59 3%
OUT–OF–POCKET COSTS	$1,460,901	75 1%
VALUE OF SUBSIDIES AND DONATIONS	$484,231	24 9%
FULL COST (Including Subsidies and Donations)	$1,945,132	100 0%

COSTS BY CATEGORY		%
Planning and Design	$31,272	1 6%
Acquisition	$450,174	23 1%
Finance/Carrying Charges	$149,776	7 7%
Relocation	$0	0 0%
Construction	$1,050,919	54 0%
Real Estate Taxes	$1,089	0 1%
Marketing	$4,500	0 2%
Reserves	$41,000	2 1%
Legal and Organization (including Development Consultants)	$65,224	3 4%
Developer's Overhead/Staff	$65,000	3 3%
Developer's Fee	$86,178	4 4%
Syndication Costs	$0	0 0%
TOTAL	$1,945,132	100 0%
LAND COST ESTIMATED	$74,475	
TOTAL LESS LAND COSTS	$1,870,657	

	Including Land	Without Land
Normalized Full Cost (Location and Year)	$2,041,361	$1,963,202
Normalized Standard Unit Cost	$58,010	$55,789
Initial Rent	$539	
Initial Rent as a Percent of FMR	80 3%	
Initial Standardized Rent	$551	
Initial Standardized Rent as a Percent of Median Income	12 2%	
Affordability Level	40 8%	
Required Rent if Fully Market–Financed	$644	
Percentage Increase Required Over Actual	19 5%	
Percentage Increase Required Over Tenant Payment	22 2%	
Present Value of Subsidies and Donations	$713,440	

WORKSHEET

Renaissance Apartments

		with land	*without land*
1 Normalized Full Cost			
a	Full Cost	$1,945,132	$1,870,657
b	Time Factor	1 05	1 05
c	Location Factor	1 00	1 00
d	a*b*c	$2,041,361	$1,963,202
2. Number of Standard Units			
a	Total Square Feet	29,700	
b	a/844	35 19	
3 Normalized Standard Unit Cost			
a	1d/2b	$58,010	$55,789
4 InitialRent as a Percent of FMR			
a	Initial Rent (wgted by avg unit size)	$539	
b	FMR	$671	
c	a/b	80 3%	
5. Initial Standardized Rent as % of Mean			
a	Actual Units	36	
b	Actual Units/2b	1 02	
c	b*Initial Rent (=Standard Rent)	$551	
d	Median Income	$54,100	
e	c/(Median Income/12)	12 2%	
6. Affordability Level			
a	Initial Standard Rent (5c)	$551	
b	(a/ 30)*12	$22,057	
c	b/Median Income	40 8%	
7 Required Rent if Financed			
a	Full Development Cost	$1,945,132	
b	Equity	$0	
c	a−b=principal	$1,945,132	
d	Debt Service at Market	$474	
e	Monthly Operating Cost + Reserve	$170	
f	d+e=Required Rent	$644	
g	Percent Increase Required	19 5%	
h	Average Tenant Payment	$527	
i	Percent Increase Required	22 2%	
8 PV of Subsidies and Donations			
a	Grants and Cash Contributions	$19,401	
b	Non−Cash Contributions	$484,231	
c	Diff of PV of Actual & Market Loan	$209,808	
d	a+b+c	$713,440	

WASHINGTON BOULEVARD APARTMENTS
Chicago, Illinois

1. Overview

The Washington Boulevard Apartments (West Washington Associates Limited Partnership) project is a 51-unit,[1] multi-family rental apartment project located in the West Garfield Park section of Chicago, Illinois. The West Garfield Park neighborhood is the target area for Bethel New Life, the developer of the project. Bethel is a 13-year old nonprofit community development organization that provides social services and has developed hundreds of housing units in this community. The neighborhood, located on the West Side of Chicago, has experienced severe decline since World War II. Since 1960, the area lost over a third of its housing stock due to abandonment or fires, and its remaining stock of commercial and residential properties has undergone serious deterioration. Boarded up and vacant properties can be found on almost every block.

West Washington Boulevard, where the subject property is located, is a major artery and one of the more desirable residential streets since its mix of residential homes and apartment buildings have not deteriorated as much as some of the surrounding streets. Bethel has renovated four properties in the immediate area, including a health care center. The Bethel Lutheran Church, a sponsor of Bethel New Life, is also nearby

The project, acquired in late 1987 and completed by the fall of 1990, consists of two separate apartment buildings (4200 and 4400 W. Washington) which were completely rehabilitated. The buildings, which had been vacant for several years, were acquired by Bethel at a county auction of tax delinquent buildings.

The two buildings are located two blocks from each other but marketed and operated as one project. They are each three stories high and constructed of solid brick, as are many of the early Twentieth-century apartment buildings located in the neighborhood. Both buildings have interesting stone decorations which were restored during the rehabilitation, resulting in a charming and unique exterior. There are ten one-bedroom units, 15 two-bedroom units, and 26 three-bedroom units, reflecting the family-oriented nature of the market demand. The original plans showed a larger number of one-bedroom units, but the configuration was changed during construction to reflect a market demand for larger units.

All of the units at West Washington Boulevard are occupied by residents qualifying as low income tenants (60% of median income) for purposes of the Low Income Housing Tax Credit (LIHTC) program, which was used to help finance the $3.5 million project. Other financing sources consist of a market-rate first mortgage loan from First National Bank of

[1] This includes two additional basement units which were added during construction but have not been available for occupancy These units are included in standard cost per unit and unit standardization calculations later in the case study, but are excluded for calculations involving revenue and operating costs

Chicago, a second, subsidized mortgage through the city of Chicago Department of Housing, and bridge loans from both the Enterprise Foundation and the Local Initiatives Support Corporation (LISC). Of the 51 units, a total of 16 have tenant-based rental assistance. Nine are subsidized by the Section 8 Existing Rental Housing Program and seven are subsidized directly by a Bethel program.

2. Sponsor and Development Team

Bethel New Life was started in April 1979 by the people of Bethel Lutheran Church, who were determined to improve West Garfield Park, their west side Chicago community which was devastated by extreme poverty, abandoned housing, crime, and high unemployment. From the initial staff of a few volunteers, the organization has grown to over 500 employees and has annual revenues of over $10 million.

Bethel New Life is considered an experienced developer of both housing units and commercial developments such as health care facilities, senior living communities, and community development centers. They have developed over 600 housing units in the area, including multifamily rental, limited equity cooperative, and single family structures. The single-family homes are being built under the auspices of a new program, the Westside Isaiah Plan, which is staffed by Bethel personnel working with the city and a coalition of 20 area churches. The program will add 250 new homes (using vacant lots) to the community's housing stock by 1993, and is funded in part by HUD's Nehemiah program.

Bethel is a community-based organization. Their development strategy is to create enough of a critical mass of new and rehabilitated units to stabilize one small neighborhood at a time, and ultimately the whole community. This helps to revitalize the immediate neighborhood and ensure the economic value of the buildings. With the exception of the single-family home program, almost all Bethel's projects are rehabilitation of abandoned or empty buildings.

Bethel provides the feasibility analysis, construction management, and marketing through its in-house staff, and hires outside firms for architectural, engineering, legal, and general construction services. They now contract with a third-party property manager although at the time of this development Bethel managed their own properties. The outside members of the development team for the Washington project were firms with which Bethel has worked on a continuing basis. The General Contractor was selected on the basis of a competitive bid process from among firms which Bethel regularly uses.

3. Pre-Development Period

The buildings were acquired for $2,000 in November 1987 at an auction through the county's Tax Reactivation Program. This program allows nonprofits to acquire tax-delinquent buildings for a nominal sum and eventually pay the back taxes that are due when the nonprofit has acquired financing for the project. The two buildings were then transferred to the West

Washington partnership at the loan closing in November of 1989. Back taxes of approximately $36,000 were paid to the county at closing.

The pre-development process was routine and required no special zoning or hearing processes by the city. The two year-interval between the acquisition in late 1987 and the final loan closing in late 1989 had more to do with the search for financing than with delays in the approval process. Bethel's plans called for the two buildings to be operationally managed as one entity, but the financing was originally envisioned as separate for each. The appraisals, however, would not support the loan amount for each on a stand-alone basis. Eventually, at the suggestion of First Chicago, the lead lender, the two buildings were packaged for financing purposes and the value of the resulting appraisal was sufficient to support the conventional loan amounts

4. Construction Financing

Financing totalling $3,073,890 was obtained during the construction period through a conventional first mortgage in the amount of $830,000 from the First National Bank of Chicago, a subsidized second mortgage from the Chicago Department of Housing (DOH) Rental Rehabilitation Loan Program in the amount of $1,581,280, a bridge loan from LISC for $365,610, and a bridge loan from the Enterprise Foundation for $297,000. These debt sources totalled approximately $284,325 less than the development cost estimate because certain costs were payable only after the construction period was completed.[2]

The financing sources were secured between the spring of 1989 and November of 1989, when the loan closed with all parties. There were no special underwriting requirements or difficulties in obtaining financing once the appraisal problem was solved. The terms of the construction financing were as follows:

- **First Mortgage, First Chicago Bank, $830,000:** This conventional construction/permanent loan carried a construction interest rate of Prime plus 3%, which equalled 13.5% at the time of this loan. The loan was converted to permanent status (see permanent financing section) at completion. The bank did not charge any financing fee in connection with the loan, as it would typically have charged for a commercial borrower. This is considered to be a subsidy to the project in the amount of $8,300.[3]

- **Second Mortgage, Chicago Housing (Rental Rehabilitation) Loan, $1,581,280·** This loan, which also converted to permanent upon completion of the project, carried no interest during the construction period and charged no loan fees. For purposes of Exhibit 1, the absence of a loan fee and the interest-free loan during

[2] Developer's fee of $98,000, partnership management fee of $5,000, syndication fee of $1,500, and bridge loan interest in amount of $179,845.

[3] Calculation assumes a market rate loan fee of 1.0% on the principal amount of $830,000 ($830,000 x 01 = $8,300)

construction were considered development period subsidies to the project in the amount of $81,700.

- **Bridge Loan, Enterprise Social Investment Corporation, $297,000:** The Enterprise bridge loan, along with the LISC bridge loan, was designed to provide capital to the project while the syndication proceeds were being received in staged payments from the Chicago Equity Fund (CEF) for the Tax Credit equity. The Enterprise loan was for a term of 7 years, to match the schedule of the CEF payments. The loan carried no interest during the construction period and charged no loan fee, which are considered as development period subsidies to the project for purposes of Exhibit 1 in the amount of $15,345.

- **Bridge Loan, LISC, $365,610:** This bridge loan, along with the Enterprise loan, was designed to provide capital to the project while the syndication proceeds from CEF were being received, and carries the same 7 year term and 7% interest rate. The absence of a loan fee and the below market interest rate are considered development period subsidies to the project in the amount of $18,890.

5. Construction Period

The construction period ran fairly smoothly and the contractor's work on the project was actually completed slightly ahead of schedule. Change orders in the approximate amount of $100,000 were submitted, but were more than covered by the hard cost contingency and did not result in any cost overruns in the budget. The change orders involved the addition of landscaping, fences and lighting which were originally omitted to cut costs but later were felt necessary to add to the marketability of the units and the security of the tenants. Also, again from a marketability standpoint, the design was reconfigured to eliminate some one-bedrooms and add more two bedrooms since the market demand was for larger units. These change orders were approved by the lenders.

6. Permanent Financing

There are three sources of permanent financing for the West Washington project: the bank first mortgage in the amount of $830,000 from First Chicago, the second mortgage from Chicago DOH in the amount of $1,581,280, and the Low Income Housing Tax Credit (LIHTC) equity from the Chicago Equity Fund in the amount of $945,555.[4]

In addition, there are the two bridge loans from LISC and Enterprise for seven years designed to provide capital to the project while the proceeds of the Tax Credit equity are being paid in over a 7 year period. By 1996, the bridge loans will be retired and the Tax Credit equity funds will have completely replaced the LISC and Enterprise loans for permanent funding of the property The equity payments are being used solely to 1) repay the principal on the

[4] This includes a nominal equity contribution of $100 by Bethel as the General Partner

bridge loans, 2) pay the interest on the bridge loans, 3) pay an initial partnership management fee of $5,000 to Bethel as the General Partner, and 4) pay a total development fee of $98,000 to Bethel paid out in installments over the 7 year period.

The terms of the permanent financing are as follows:

- **First Mortgage, First Chicago Bank, $830,000:** The conventional construction loan converted to a permanent loan. It carries an interest rate of 10.25% for the first 3 years, then adjusts to a floating rate of 2.75% over five-year Treasury notes for the remainder of the 30 year loan term. The loan is prepayable in full or in part at any time, and is amortized on a 30 year schedule.

- **Second Mortgage, Chicago Housing (Rental Rehabilitation) Loan, $1,581,280:** This loan, which also converted to permanent upon completion of the project, is a 30 year, interest-only loan. The interest rate is equal to 50% of any cash flow from the project remaining after operating expenses and any other debt service payments, or 1%, whichever is greater. If there is not enough cash flow to pay the minimum 1%, this amount accrues and is due upon sale. For purposes of permanent subsidy present value calculations shown in Exhibit 2, this loan is treated as carrying a subsidized interest rate of 1% since this is a minimum pay rate which is being accrued by the city.

- **Tax Credit Equity, $945,555:** The Tax Credit equity is paid in over a seven year period through 1996.

7. Lease-up and Occupancy

The project was ready for occupancy in the late summer of 1990. The 4200 building took three months to fully lease and the 4400 building took slightly longer, about five months. The reason for the discrepancy in lease-up time was that the 4400 building had a greater proportion of smaller units, which were not in as much market demand. Further, there was not much rent differential between the one and two bedroom apartments.

Initial and current rents are:

	Initial	1992 Actual
One Bedroom:	$375.00	$350.00-385.00
Two Bedroom:	$405.00 - 425.00	$410.00-435.00
Three Bedroom.	$445.00 - 450.00	$450.00-460 00

Marketing and lease-up functions were performed by Bethel staff and Bethel New Life Management, Bethel's for-profit management subsidiary which ran West Washington and Bethel's other projects until they decided to hire an outside management firm in late 1990.

8. On-going Operations

Operation of the property was turned over in December of 1990 to an experienced firm which manages over 5,000 multifamily units in the Chicago area. The management fee of 5% charged by this firm is standard for the market.

The two properties are currently breaking even on a cash flow basis for 1992, although they operated at a loss after debt service in 1991, the first year of operations. Occupancy has remained at 95%. Rents and other income met projections, while expenses were above projections.

The project does not have funded operating reserves but is required to have a capital reserve fund of $5,000 initially, increasing by about 5% per year. No additional syndication proceeds or other sources of capital financing are expected.

9. Other Activities by Nonprofit Sponsor

Bethel New Life provides a wide variety of economic development and health care services to neighborhood residents, and has had a major impact in providing services to the West Garfield Park community. No services are provided directly to the Washington Boulevard residents as part of the project, but residents can avail themselves of Bethel's general community services.

Bethel's initial focus on housing redevelopment has greatly expanded, in response to the need demonstrated by the community, to include health services, employment and training, and education. Major divisions of Bethel other than the Housing Division include:

- Senior Services Division: Provides chore and homemaker services to over 700 individuals in their homes and adult day care services at a senior day care center to over 150 participants. This division employees almost 300 people, most of whom are community residents.

- Health and Family Service Division: This division operates a health care clinic to serve largely uninsured and Medicare patients, provides a transitional living program for homeless families, and helps mothers with the WIC program.

- Beth Ann Life Centre Division: Operates a skilled nursing facility which was rehabilitated from an abandoned hospital campus. Other social services are also provided and other buildings on the campus are being converted to provide a community center. Over 50 new jobs were created in this division in 1991.

- Community and Economic Development Division: Runs an Employment Center which helped over 300 families in 1991, a literacy program, a start-up material recycling program designed to provide jobs, and assists in providing other community services.

Bethel's total income, including their real estate activities, rose from $7.6 million in 1990 to $10.2 million in 1991. The group operates with a positive cash flow; the excess of revenues over expenses was $.5 million in 1990 and over $1.0 million in 1991, leaving a positive overall funds balance of nearly $3.3 million over liabilities. These funds have been invested by Bethel in its real estate projects, and therefore are not available as cash.

10. Development Costs/Analysis of Data

Exhibit 1 summarizes the sources and uses of cash and non-cash resources for the development of the West Washington project. The developer's fee and interest payments on the bridge loans are included as project development costs although actual payment occurred after the construction period.

There were no grants received for this project, and no donated services or reductions in fees by service professionals such as attorneys or architects. However, the value of Bethel staff time contributed to the project has been estimated at $20,800 based on 52 days at $50 per hour. This amount is shown in the non-cash source column. The county did recover back taxes from the project so there was no subsidy from the county for taxes at the time of acquisition. Subsidies to the project during the development period came in the form of below market interest rate subsides and foregone loan fees. These are shown in Exhibit 1 under the non-cash contribution column. The calculations used to derive the amount of these subsidies during the development period are discussed in Section 4, Construction Period Financing.

Exhibit 2 summarizes other financial data for the West Washington project, including various descriptive statistics and data used for cross-comparison of all 15 case study projects. The present value calculation at the end of the table shows subsidies provided over the life of the project from grants and contributions, non cash sources, and the below-market interest rate on the city loan

11. Summary and Sponsor Recommendations

In building the West Washington Apartments, Bethel was the beneficiary of the county's program to get rid of buildings which were on the tax delinquent rolls. However, one objection to this program is that the nonprofits are allowed to bid under this program only after the buildings have failed to sell at previous market auctions over a period of years. This means that the buildings are the ones in the worst locations and in the worst condition, and cost more to rehabilitate Further, the conditions have probably deteriorated while the county tried and failed to sell at market auctions. The nonprofit contends that the county would be better off to let the buildings go earlier, resulting in less rehabilitation cost and in improved neighborhoods.

An important financing component of the project was the availability of the Tax Credit equity. While Bethel was happy to use the credit and will certainly use it as long as it is available, the Executive Director felt that from a strict financial point of view, the Tax Credit is much better used in large projects. It is not really cost-effective in smaller projects because the fixed transaction costs are too high.

EXHIBIT 1

Sources and Uses of Cash and Non–Cash Resources

Washington Boulevard Apartments

I Sources of Funds	Cash	Non–Cash	Total
1 First Chicago Bank Loan	$830,000	$8,300	$838,300
2 Chicago City Loan	$1,581,280	$81,699 [1]	$1,662,979
3 CEF Tax Credit Equity	$945,555	$0	$945,555
4 LISC Bridge Loan	$0	$15,345 [2]	$15,345
5 Enterprise Bridge Loan	$0	$18,890 [3]	$18,890
6 Staff Time	$0	$20,800 [4]	$20,800
7 Non–Cash Developer's Fee	$0	$84,184	$84,184
8			$0
9			$0
10			$0
11			$0
12			$0
13			$0
14			$0
15			$0
TOTAL	$3,356,835	$229,218	$3,586,053

II. Uses of Funds	Out–of–Pocket	Non–Cash Contribution	Total
Planning and Design	$86,903	$0	$86,903
Acquisition	$38,000	$0	$38,000
Finance/Carrying Charges	$114,378	$124,234	$238,612
Relocation	$0	$0	$0
Construction	$2,714,085	$0	$2,714,085
Real Estate Taxes	$20,109	$0	$20,109
Marketing	$20,000	$0	$20,000
Reserves	$0	$0	$0
Legal and Organization (including Development Consultants)	$65,000	$0	$65,000
Developer's Overhead/Staff	$0	$20,800	$20,800
Developer's Fee	$98,000	$84,184	$182,184
Syndication Costs	$200,360	$0	$200,360
TOTAL	$3,356,835	$229,218	$3,586,053

III. Contributions	Cash	Non–Cash	Total
TOTAL	$0	$229,218	$229,218

Nominal Expected Rate for Combined Developer's Fee, Overhead, and Staff Costs as a Function of Total Development Costs Net of These Costs = 6 0%

Notes
1. 1,581,280*1 0% + 1,581,280*10 0%*10/12*0 5
2. 297,000*1 0% + 297,000*10 0%*10/12*0 5
3. 365,610*1 0% + 365,610*10 0%*10/12*0 5
4. Staff time is calculated using 52 days at $50 per hour

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EXHIBIT 2

Summary of Financial Data Analysis

Washington Boulevard Apartments

		%
CASH EQUITY	$945,555	26 4%
DEBT FUNDS	$2,411,280	67 2%
NON–CASH RESOURCES	$229,218	6 4%
TOTAL RESOURCES	$3,586,053	100 0%
Percent Public Resources	$1,662,979	46 4%
Percent Private Resources	$1,923,074	53 6%
OUT–OF–POCKET COSTS	$3,356,835	93 6%
VALUE OF SUBSIDIES AND DONATIONS	$229,218	6 4%
FULL COST (Including Subsidies and Donations)	$3,586,053	100 0%

COSTS BY CATEGORY		%
Planning and Design	$86,903	2 4%
Acquisition	$38,000	1 1%
Finance/Carrying Charges	$238,612	6 7%
Relocation	$0	0 0%
Construction	$2,714,065	75 7%
Real Estate Taxes	$20,109	0 6%
Marketing	$20,000	0 6%
Reserves	$0	0 0%
Legal and Organization (including Development Consultants)	$65,000	1 8%
Developer's Overhead/Staff	$20,800	0 6%
Developer's Fee	$182,184	5 1%
Syndication Costs	$200,360	5 6%
TOTAL	$3,586,053	100 0%
LAND COST ESTIMATED	$33,568	
TOTAL LESS LAND COSTS	$3,552,485	

	Including Land	Without Land
Normalized Full Cost (Location and Year)	$3,210,372	$3,180,320
Normalized Standard Unit Cost	$49,423	$48,960
Initial Rent	$443	
Initial Rent as a Percent of FMR	59 7%	
Initial Standardized Rent	$348	
Initial Standardized Rent as a Percent of Median Income	8 6%	
Affordability Level	28 7%	
Required Rent if Fully Market–Financed	$670	
Percentage Increase Required Over Actual	51 2%	
Percentage Increase Required Over Tenant Payment	98 2%	
Present Value of Subsidies and Donations	$1,587,388	

WORKSHEET

Washington Boulevard Apartments

	with land	*without land*
1 Normalized Full Cost		
a Full Cost	$3,586,053	$3,552,485
b Time Factor	1	1
c Location Factor	0 90	0 90
d a*b*c	$3,210,372	$3,180,320
2. Number of Standard Units		
a Total Square Feet	54,824	
b a/844	64 96	
3 Normalized Standard Unit Cost		
a 1d/2b	$49,423	$48,960
4. InitialRent as a Percent of FMR		
a Initial Rent (wgted by avg unit size)	$443	
b FMR	$742	
c a/b	59 7%	
5. Initial Standardized Rent as % of Mean		
a Actual Units	51	
b Actual Units/2b	0 79	
c b*Initial Rent (=Standard Rent)	$348	
d Median Income	$48,400	
e c/(Median Income/12)	8 6%	
6 Affordability Level		
a Initial Standard Rent (5c)	$348	
b (a/ 30)*12	$13,913	
c b/Median Income	28 7%	
7. Required Rent if Financed		
a Full Development Cost	$3,586,053	
b Equity	$945,555	
c a−b=principal	$2,640,498	
d Debt Service at Market	$454	
e Monthly Operating Cost + Reserve	$216	
f d+e=Required Rent	$670	
g Percent Increase Required	51 2%	
h Average Tenant Payment	$338	
i Percent Increase Required	98 2%	
8 PV of Subsidies and Donations		
a Grants and Cash Contributions	$0	
b Non−Cash Contributions	$229,218	
c Diff of PV of Actual & Market Loan	$1,358,170	
d a+b+c	$1,587,388	

PLAZA ON THE PARK II APARTMENTS
Chicago, Illinois

1. Overview

The Plaza on the Park II Apartments is a 57-unit, low income rental apartment project on Chicago's South side. The community consists of three low-rise, solid brick buildings which were rehabilitated between 1989 and 1990 by the Urban Development Corporation (UDC), a small, neighborhood based nonprofit housing and community development organization. The project is located in the North Washington Park/Grand Boulevard Community, the target area for UDC. The community, which is approximately 4 miles south of Chicago's Central business district, was originally part of the town of Hyde Park, formed in 1881 when the area was mostly still prairie.

After the Civil War and the Great Fire, many middle income families moved to the area in an attempt to get away from the congestion of the city The Grand Boulevard (now Martin Luther King Drive), which runs through the center of the neighborhood, was lined with many mansions and beautiful family homes. These buildings and others built between 1884 and the early part of the Twentieth century still comprise a large part of the existing housing stock of the neighborhood. Some of these buildings, after years of neglect and vacancy, have recently been bought and renovated and are serving to help increase local property values

The area grew rapidly in the first half of the century, reaching a peak population of 114,000 people in 1950. Housing, however, had not kept pace with the population increase and the neighborhood became severely congested, with deteriorating streets and buildings. The total number of housing units in North Washington Park has dropped by about one-third in the past thirty years due to abandonment and neglect, and, although the current population is just about half of the 1950 high, at least one-quarter of all families live in overcrowded housing. According to the 1988 property appraisal, the population is very young, with 37 percent being under the age of 18. Seventy percent of all households with children under 18 are headed by females.

Recently, however, the area has received attention from private developers and an infusion of public funds for rehabilitation. The rehabilitated buildings are in good condition and have resulted in an increase in property values A number of larger homes have recently been bought and renovated by private individuals. This, according to the UDC staff, is an encouraging sign for the neighborhood. However, the area is far from being "gentrified". Further, the competition from private developers makes it more difficult for UDC and other nonprofit organizations to compete because prices are rising and they have little up-front cash.

The Plaza on the Park II apartments consist of three separate brick buildings constructed between 1904 and 1906. All of the buildings are three-story walk-ups over full basements. While in reasonably good structural condition, they were run-down and required extensive rehabilitation. Two of the buildings were occupied and the third was partially occupied by squatters, so the project did require relocation.

All of the tenants are low income as required by the regulations of the Low Income Housing Tax Credit (LIHTC) program used to help finance the project. Thirteen tenants are subsidized by tenant-based Section 8 certificates.

2. Sponsor and Development Team

The project was developed by a not-for-profit/for-profit joint venture between UDC and Eastlake Management and Development Corporation, the for-profit partner. UDC, originally named the Provident Community Development Corporation (PCDC), was established in 1980 by the newly-built Provident Hospital to promote the rehabilitation and reclamation of the surrounding community. In the early 1980's, PCDC renovated several multi-family properties and built a 57-unit senior citizen home of self-sufficiency apartments.

However, the new hospital ran into financial problems and was eventually closed. Prior to its closing, the directors of PCDC felt that due to the hospital's financial problems, the goals and objectives of the nonprofit community development association were not being properly articulated or met PCDC, through the leadership of its board, severed its relationship with the hospital in 1986 and became an independent, nonprofit corporation called the Urban Development Corporation. It retained ownership and management of all projects which had been developed.

To date, UDC has developed three multi-family projects totaling 229 units, and a 57-unit senior building which also serves as UDC's administrative headquarters. The multi-family projects were all rehab, while the senior community was new construction. UDC's largest project is a seven building, 151-unit project completed in 1987 in a joint venture with another for-profit developer, Rescorp Development Corporation. However, for the subject property and current developments, UDC is working with Eastlake Management and Development Corporation. Eastlake is a Chicago-based owner/manager/developer of over 5,000 multi-family units, both market-rate and affordable.

UDC has only one full-time employee who concentrates on development projects and other activities of the corporation. The several other employees work exclusively with the senior citizens building. The Executive Director, however, who is not a full-time employee, is heavily involved in the development activities, along with other members of the board. For much of its development expertise, UDC relies on Eastlake, which as a full service real estate firm has a much larger staff, and more experience and resources for development activities.

The joint venture between UDC and Eastlake is structured so that the development fee and the partnership management fees are spilt 50/50 between the two entities. Eastlake provides the property management and marketing services, for an annual fee of 6% of rental income.

The General Contractor for the Plaza apartments is a company owned by the President of Eastlake Management and Development. Owning an affiliate construction company is a common practice of many private developers, and the company constructs many of Eastlake's projects. They have also been the GC on several other Chicago Equity Fund (Tax Credit source for this project) projects. The architectural and design services, legal services, and financial and

accounting services were provided by outside parties who charged market rates for their services.

3. Pre-Development Period

The three buildings were identified in 1987. Site control and acquisition were completed in 1988. The first two buildings were identified through brokers and UDC's general knowledge of the neighborhood, and the negotiations were led by UDC. Eastlake was brought in as a partner to enhance UDC's development expertise at the time UDC was negotiating for the third building. Eastlake management feels that UDC's lack of experience may have caused them to negotiate too high a price for the first two buildings. The total purchase price of approximately $415,000 was used primarily to pay delinquent taxes and utilities with limited cash to the sellers.

The buildings were appraised for purposes of the rehabilitation in March of 1988 as part of the feasibility analysis conducted by UDC and Eastlake. While the buildings were structurally sound, they were very run down and required substantial rehabilitation, so the existing tenants had to be relocated during the renovation process, some permanently and some temporarily. Eastlake, which had experience managing this type of relocation, worked with community organizations, held meetings with and individually counseled residents, provided lists of realty agents and available units in the neighborhood, and provided relocation assistance. Relocation was begun in July 1988 and completed by the end of the year.

4. Construction Financing

Financing was provided during the construction period by a conventional first mortgage in the amount of $884,000 from the Harris Trust and Savings Bank (a Chicago bank), a second subsidized non-interest bearing mortgage from the Chicago Department of Housing (DOH) in the amount of $1,753,000, and a bridge loan from the Illinois Housing and Development Authority (IHDA) for $487,489

The bridge loan, however, was not available until one year after closing so the city advanced the $487,000 bridge loan after closing from the undrawn proceeds of the second mortgage. The city's early advance was repaid in October of 1989, one year after closing, with the proceeds of the IDHA loan. However, the city did charge 7% interest on this portion of the loan, which was not built in to the construction budget The shortfall had to be covered by a loan from the contingency balance as well as a small ($10,000) advance from the general partners. This advance should be considered a capital call to the general partners which they chose to fulfill and not as a "subsidy" to this project.[1]

[1] Partnerships can make capital calls when a situation arises which requires additional capital to the project This is called a capital call, and can happen in any deal, private or non-profit In this case, the limited partners are the investors in the Equity Fund, and are protected from such capital calls. Therefore, Eastlake and UDC assumed this liability as general partners in the project. Otherwise, they would have defaulted on the city loan.

The financing sources were secured between the spring of 1988 and October of 1988, when the loan closed. There were no special difficulties or underwriting requirements in obtaining financing once the Tax Credit commitment was secured.

The terms of the construction financing were as follows:

- **First Mortgage, Harris Trust Bank, $884,000:** This conventional construction/permanent loan carried a 9% interest rate during construction. The loan was converted to permanent status (see permanent financing section) after completion Loan fees were 1.5%.

- **Second Mortgage, Chicago City Loan (Rental Rehab/CDBG), $1,753,000:** This loan, which also converted to permanent upon completion of the project, carried no interest during the construction period and no loan fees were charged. For purposes of Exhibit 1, the interest-free loan during construction is considered a development period subsidy to the project in the amount of $127,092.[2]

- **IHDA/City Bridge Loan, $487,489·** A bridge loan in the amount of $487,489 was needed to provide capital to the project over a seven-year period while the tax-credit syndication proceeds were being received. The city advanced the proceeds in this amount to the project at the beginning of the construction period from the $1,753,000 loan it had committed to the project. It was replaced at the end of one year by a bridge loan in the same amount from IHDA (see permanent financing section). The city charged a subsidized interest rate of 7% for the loan during the construction period. For purposes of this analysis, however, this subsidy is already included in the calculation of the overall interest subsidy of $127,092 provided by the city loan (see above).[3] The bridge loan was in place for the last three months of the construction period. Interest was being charged on the IHDA bridge loan at this point so there was no subsidy attributable to the IDHA loan during the development period.

5. Construction Period

Construction began in December of 1988 (work had to start prior to the end of 1988 for Tax Credit purposes) and was completed by April of 1990. The construction period was a month or so longer than the original schedule of 15 months, due to construction change orders and difficulties typically encountered in rehabilitating older buildings. The change orders involved mostly unanticipated structural needs which were discovered as the construction advanced. For example, extensive basement leakage required repair and new floors, and the

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[2] Interest rate subsidy calculation assumes a conventional 10% interest rate during the 15-month construction period at a 50% outstanding balance ($1,753,000 x 10 x 1.25 x 50 = $109,562). Points at 1 percent would add $17,530 for a total of $127,092.

[3] The advance of the money early in the construction period may have raised the assumed outstanding loan balance and thus the interest subsidy for the city loan, but the amount is negligible and impossible to confirm for purposes of this analysis

rear porches and balconies required reinforcement and other modifications to be brought up to code. Several security measures were also added, such as chain-link fences at the rear of the properties and wrought iron fences in the front. Some design changes were made, such as relocating two entries which required the construction of new porches and stairs.

All of the changes were covered by the contingency, and there were total construction savings of about $30,000. The construction contract was structured as a standard fixed-price AIA contract. There were no special discounts or donations relative to the site preparations or infrastructure work

6. Permanent Financing

There are three sources of permanent financing for the Plaza II project the bank first mortgage in the amount of $884,000 from Harris Trust, the second mortgage in the amount of $1,753,000 from the city of Chicago housing department, and the Low Income Housing Tax Credit (LIHTC) equity from the Chicago Equity Fund in the amount of $737,020. The first mortgage and the second mortgage were structured as mini-perms to finance both the construction period and permanent financing.

In addition, there is the bridge loan from IHDA for seven years designed to provide capital to the project while the proceeds of the Tax Credit equity are being paid in over a 7 year period. By 1996, the bridge loans will be retired and the Tax Credit equity funds will have completely replaced the bridge loan for permanent funding of the property. The equity payments are being used solely to 1) repay the principal on the bridge loans, 2) pay the interest on the bridge loans, and 3) pay development and general partner fees of $110,202 paid out in installments over the 7 year period.

Due to a misunderstanding by the general partners of the low income requirements of the Low Income Housing Tax Credit program (see lease-up and occupancy section) the tax syndication pay-in schedule had to be revised, with payments coming later than originally planned.

The terms of the permanent financing are as follows:

- **First Mortgage, Harris Trust Bank, $884,000:** The conventional construction loan converted to a permanent loan. It carries an interest rate of 9.0% for the first 3 years (including the construction period), then adjusts to the Prime rate, with a floor of 9% and a ceiling of 14%, for the remainder of the 30 year loan term. The loan is prepayable in full or in part at any time, and is fully amortized on a 30 year schedule.

- **Second Mortgage, Chicago Housing (CDBG/Rental Rehabilitation) Loan, $1,753,000:** This loan, which also converted to permanent upon completion of the project, is a 30 year, interest-only loan. The interest rate is equal to 75% of any cash flow from the project remaining after operating expenses and any other debt service payments, with no minimum pay rate. For purposes of the

permanent subsidy present value calculations shown in Exhibit 2, this loan is treated as having a $4,000 annual pay rate.[4]

- **Tax Credit Equity, $737,020:** The Tax Credit equity is paid in over a seven year period through 1996

7. Lease-Up and Occupancy

Leasing activity began in 1989, and the project was fully leased just after the project was completed in April/May 1990. However, the inexperience of the management agent and the nonprofit with respect to the Low Income Housing Tax Credit program regulations led them to make a major error: they leased 60 percent of the units to tenants who were not low income for purposes of the Tax Credit. When this error was discovered, the Chicago Equity Fund had to revise their pay-in schedule to conform with the Tax Credit. Under this new schedule, the partnership was unable to meet the originally scheduled IDHA loan repayments, and had to borrow from the contingency fund as well as advance $10,000 from their own funds to cover the payment (see construction financing section).

The project was quickly leased to the higher income tenants when it first opened, but lost some occupancy during the second year as management sought to replace the initial residents with lower income tenants as required by the Tax Credit rules They had to wait until the one-year leases of the original residents expired (those with higher income were no longer eligible by law to live in the project) before replacing them with qualifying tenants.

8. On-Going Operations

Other than the income-qualification problems, the operations have been successful so far. The project is currently fully leased, and is breaking even. There have been no additional capital costs or repairs required, and the buildings are extremely attractive and well-maintained.

The project does not have any significant operating reserves, and the additional syndication proceeds coming in from CEF are pledged to the repayment of the IDHA bridge loan and to payment of the developer's fee.

Current rents for the apartments are:

One Bedroom:	$400.00 - 415.00
Two Bedroom:	$475.00 - 500.00
Three Bedroom:	$525.00 - 560.00

[4] There is a token pay rate of approximately $4,000 per year required by the city; however this is forgiven and does not accumulate if the available cash flow for the year pays 25% of this, or $1,000 per year. For purposes of this analysis, we are assuming that the $4,000 is available to be paid to the city

9. Other Activities by Nonprofit Sponsor

UDC is currently in the process of acquiring another building, the Vincennes Court Apartments, for rehabilitation in a joint venture with Eastlake. This project will provide 20 units of affordable housing and will also utilize the Low Income Housing Tax Credit program. In addition, UDC is involved in "HRAIL", the Home Repair for Independent Aged and Independent Living program. This Chicago Department of Housing (DOH) program provides CDBG funds to fix up individual homes and apartments for elderly and disabled. UDC also works with several other community planning organizations. They are integrally involved in planning for the new hospital facilities that are being rehabilitated and constructed by Cook County on the Provident Hospital site The hospital was foreclosed upon by HUD. The County then acquired the property from HUD in the late 1980's for $1. The opening of the facility next year is expected to bring significant employment to the area and aid in its revitalization.

10. Development Costs/Analysis of Data

Exhibit 1 summarizes the sources and uses of cash and non-cash resources for the development of the Plaza on the Park II project. The developer's fee and interest on the bridge loans are included as project development costs although actual payment occurred after the construction period.

There were no grants received for this project, and no donated services or reductions in fees by service professionals such as attorneys or architects. Subsidies to the project during the development period came in the form of below market interest rate subsidies and a deferred developer's fee.[5] In addition, the value of staff time contributed to the project has been estimated at $100,000 based on 2,500 hours at $40 per hour. These are shown in Exhibit 1 in the non-cash sources column. The exact calculations used to derive the amount of the interest rate subsidies during the development period are shown in Section 4, Construction Period Financing.

Exhibit 2 summarizes other financial data for the Plaza II project, including various descriptive statistics and data used for cross-comparison of all 15 case study projects The present value calculation at the end of the table shows the value of subsidies provided over the life of the project from grants and contributions, non-cash contributions, and the below-market interest rate on the city loan.

[5] Although all of the $100,000 developer's fee is deferred in the sense that most of it is paid after construction by the syndication proceeds, there was a shortfall of $11,298 in total sources and uses of the project The developers, to make up the shortfall, have indefinitely deferred this portion of their fee and will receive only $88,702 from syndication proceeds Therefore, it is a "contribution" to sources and uses of the project and should be considered a non-cash contribution for purposes of this analysis.

11. Summary and Sponsor Recommendations

UDC as the nonprofit sponsor of the project chose to enter into a joint venture with a private developer for the Plaza II project, and for other projects as well. This enables UDC, which has only one full-time employee who works solely on development, to leverage their building efforts in the community by utilizing the much larger staff and resources of the private developer.

The buildings that were rehabilitated for the Plaza II project were acquired from private sources, and not through the city. These buildings were neglected and run down, and the owners owed back taxes and utilities and in some cases had liens on the property. Attorneys for the project pointed out that the negotiating process to acquire these privately-held but utility and tax delinquent buildings consumed an inordinate amount of time (and legal fees) to make sure the title was clear and to pay off all the lien holders in the proper order. They recommend that the city simplify and coordinate negotiations between owners, the city, utility companies and buyers to keep costs down. These buildings were in danger of being taken over by the city for delinquency, so the city would have leverage over the buyer and the other parties to institute such a process.

EXHIBIT 1

Sources and Uses of Cash and Non–Cash Resources

Plaza on the Park II

I. Sources of Funds	**Cash**	**Non–Cash**	**Total**
1 Harris Bank Loan	$884,000	$0	$884,000
2 Chicago City Loan	$1,753,000	$127,093 [1]	$1,880,093
3 CEF Tax Credit Equity	$737,020	$0	$737,020
4 Staff Time	$0	$100,000 [2]	$100,000
5 Deferred Developer's Fee	$0	$11,298 [3]	$11,298
6			$0
7			$0
8			$0
9			$0
10			$0
11			$0
12			$0
13			$0
14			$0
15			$0
TOTAL	$3,374,020	$238,391	$3,612,411

II. Uses of Funds	**Out-of-Pocket**	**Non–Cash Contribution**	**Total**
Planning and Design	$128,050	$0	$128,050
Acquisition	$415,785	$0	$415,785
Finance/Carrying Charges	$100,464	$127,093	$227,557
Relocation	$21,000	$0	$21,000
Construction	$2,338,759	$0	$2,338,759
Real Estate Taxes	$20,700	$0	$20,700
Marketing	$10,000	$0	$10,000
Reserves	$0	$0	$0
Legal and Organization (including Development Consultants)	$87,500	$0	$87,500
Developer's Overhead/Staff	$14,000	$100,000	$114,000
Developer's Fee	$88,702	$11,298 [3]	$100,000
Syndication Costs	$149,060	$0	$149,060
TOTAL	$3,374,020	$238,391	$3,612,411

III Contributions	**Cash**	**Non–Cash**	**Total**
TOTAL	$0	$238,391	$238,391

Notes
1. 1,753,000*1 0% + 1,753,000*10 0%*15/12*0 5
2. Staff time is calculated using 2,500 hours at $40 per hour
3. Nominal Expected Rate (6 0%) for Combined Developer's Fee, Overhead, and Staff Costs as a function of Total Development Costs net of these costs is lower and not calculated

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EXHIBIT 2

Summary of Financial Data Analysis

Plaza on the Park II

		%
CASH EQUITY	$737,020	20 4%
DEBT FUNDS	$2,637,000	73 0%
NON–CASH RESOURCES	$238,391	6 6%
TOTAL RESOURCES	$3,612,411	100 0%
Percent Public Resources	$1,011,093	28 0%
Percent Private Resources	$2,601,318	72 0%
OUT–OF–POCKET COSTS	$3,374,020	93 4%
VALUE OF SUBSIDIES AND DONATIONS	$238,391	6 6%
FULL COST (Including Subsidies and Donations)	$3,612,411	100 0%

COSTS BY CATEGORY		%
Planning and Design	$128,050	3 5%
Acquisition	$415,785	11 5%
Finance/Carrying Charges	$227,557	6 3%
Relocation	$21,000	0 6%
Construction	$2,338,759	64 7%
Real Estate Taxes	$20,700	0 6%
Marketing	$10,000	0 3%
Reserves	$0	0 0%
Legal and Organization (including Development Consultants)	$87,500	2 4%
Developer's Overhead/Staff	$114,000	3 2%
Developer's Fee	$100,000	2 8%
Syndication Costs	$149,060	4 1%
TOTAL	$3,612,411	100 0%
LAND COST ESTIMATED	$99,000	
TOTAL LESS LAND COSTS	$3,513,411	

	Including Land	Without Land
Normalized Full Cost (Location and Year)	$3,311,255	$3,220,509
Normalized Standard Unit Cost	$60,907	$59,237
Initial Rent	$526	
Initial Rent as a Percent of FMR	79 2%	
Initial Standardized Rent	$551	
Initial Standardized Rent as a Percent of Median Income	13 7%	
Affordability Level	45 6%	
Required Rent if Fully Market–Financed	$726	
Percentage Increase Required Over Actual	38 1%	
Percentage Increase Required Over Tenant Payment	95 2%	
Present Value of Subsidies and Donations	$1,866,748	

WORKSHEET

Plaza on the Park II

1. Normalized Full Cost	*with land*	*without land*
a Full Cost	$3,612,411	$3,513,411
b Time Factor	1 02	1 02
c Location Factor	0 90	0 90
d a*b*c	$3,311,255	$3,220,509
2 Number of Standard Units		
a Total Square Feet	45,885	
b a/844	54 37	
3. Normalized Standard Unit Cost		
a 1d/2b	$60,907	$59,237
4 InitialRent as a Percent of FMR		
a Initial Rent (wgted by avg unit size)	$526	
b FMR	$664	
c a/b	79 2%	
5 Initial Standardized Rent as % of Mean		
a Actual Units	57	
b Actual Units/2b	1 05	
c b*Initial Rent (=Standard Rent)	$551	
d Median Income	$48,400	
e c/(Median Income/12)	13 7%	
6 Affordability Level		
a Initial Standard Rent (5c)	$551	
b (a/ 30)*12	$22,059	
c b/Median Income	45 6%	
7 Required Rent if Financed		
a Full Development Cost	$3,612,411	
b Equity	$737,020	
c a−b=principal	$2,875,391	
d Debt Service at Market	$443	
e Monthly Operating Cost + Reserve	$284	
f d+e=Required Rent	$726	
g Percent Increase Required	38 1%	
h Average Tenant Payment	$372	
i Percent Increase Required	95 2%	
8 PV of Subsidies and Donations		
a Grants and Cash Contributions	$0	
b Non−Cash Contributions	$238,391	
c Diff of PV of Actual & Market Loan	$1,628,358	
d a+b+c	$1,866,748	

Borinquen Apartments
Chicago, Illinois

1. Overview

The Borinquen Apartments is a 37-unit, low income rental apartment community located in the West Town/Humboldt Park neighborhood on Chicago's North side. The West Town/Humboldt park neighborhood is the target development area for Latin United Community Development Corporation (LUCHA), the developer of the project. LUCHA is a ten year-old community development corporation whose mission is to eliminate the gentrification and other types of displacement of the Puerto Rican community and other residents of the neighborhood by developing affordable housing and providing community services.

The Borinquen Apartments are situated in the northwest portion of the West Town community, near the eastern edge of Humboldt Park During the past several decades, this area has experienced overall disinvestment, losing many businesses and much of its housing stock Some sectors of the neighborhood, however, have experienced gentrification. The combination of gentrification in some areas and disinvestment in others has sharply reduced the supply of affordable housing units for the community's predominately low and moderate income residents, a majority of whom are Hispanic.

The three buildings which comprise the Borinquen project were identified by LUCHA in 1987. LUCHA had identified five or six buildings, and narrowed it to these three as the most feasible development sites. Site control was gained in 1988, but the financing to fund the acquisition and project development was not in place until December 31, 1989, nearly two years later. The project was finally completed in June of 1991.

The buildings are located near each other but are not contiguous. They are three story walk-ups with full basements and exterior porches, and are of solid brick construction. Prior to rehabilitation, they were occupied but run-down and in need of significant structural rehabilitation. Like many of the early Twentieth Century buildings in the neighborhood, they had interesting stone facade decorations which were restored during the rehabilitation, resulting in a very attractive exterior.

There are 16 two-bedroom units and 21 three-bedroom units, reflecting the family-oriented nature of the market demand. All of the units at Borinquen are occupied by residents qualifying as low income tenants (60% of median income) for purposes of the Low Income Housing Tax Credit (LIHTC) program used to help finance the $2.8 million project. Almost all of the residents receive tenant-based rental assistance: 15 receive Section 8 rental assistance, 19 receive assistance from another program sponsored by the Chicago Department of Housing (DOH), leaving only 3 who do not receive any assistance.

The project was financed by two subsidized mortgages provided by the Illinois Housing Development Authority (IHDA) and Chicago's DOH, a bridge loan from LISC, and Tax Credit equity.

2. Sponsor and Development Team

The project was developed by LUCHA, which was incorporated in 1982. LUCHA is a novice developer, having developed only one previous project, a 10 unit multi-family rehabilitation located near the Borinquen buildings. LUCHA does provide other services to the neighborhood, and is currently developing other projects.

LUCHA's development strategy is to concentrate on the redevelopment of the immediate area by using a community controlled approach through which homeowners, tenants, and landlords work together. They feel only with a strong base of support from area residents and neighborhood institutions can they sustain lasting developments. All of LUCHA's current and proposed projects are rehabilitations of existing buildings.

LUCHA provides feasibility analysis, construction management, and marketing through its in-house staff, and hires outside firms for architectural, engineering, legal and general construction services.

3. Pre-development Period

The three buildings were first identified by LUCHA in 1987, but were not actually acquired until the end of 1989, nearly two years later. The two year delay was due to the difficulty LUCHA had in obtaining financing for this low income project. Part of the difficulty may have been that LUCHA, with only one completed project, did not have enough of a successful track record to compete with other, larger nonprofits in Chicago for the limited funds available. The purchase price for the structures, which were acquired from private owners, was $415,500.

The development process was routine and required no special zoning or hearing processes by the city. Because the buildings were occupied, LUCHA had to present a relocation plan to the city for assisted tenants. Since most of the tenants were moved back into the building, LUCHA was able to retain a number of Section 8 tenants with little difficulty.

4. Construction Financing

The construction financing for the Borinquen apartments consisted of subsidized loans from IHDA and Chicago's DOH, and a bridge loan from LISC. Because the terms of these loans are the same for the construction and permanent periods of the loans (they converted to permanent upon completion), they are discussed in the permanent financing section of the case study.

5. Construction Period

The original project schedule called for loan closing in December 1989, followed by a three-month period during which the existing tenants would be relocated. Construction should have started in April of 1990, and was to be completed twelve months later in April of 1991. However, the relocation process took nearly seven months to complete, and construction did not begin until August 1990. Construction was completed by June 1991.

There were two types of relocation for the project, permanent and temporary. Most of the relocation was temporary since most residents moved back in to the renovated units. The relocation took longer than expected because of difficulties in finding temporary apartments at rents the tenants could afford. Permanent relocation costs were paid by Chicago's DOH, through HUD relocation funds. Temporary relocation costs of about $19,982 were paid from the financing proceeds for the project. LUCHA expended great effort to keep the relocation costs within budget. They searched strenuously for affordable apartments, and hired a moving company on a straight fee basis to keep costs down

The actual construction process, once started, went smoothly. The project was finished 11 months after the relocation was complete, slightly ahead of the original construction schedule LUCHA had learned from some mistakes made on their first project (for instance, they did not separately meter the units) and was more efficient in the Borinquen renovation Still, in order to save costs, they had to forego some needed repairs and some areas of the buildings still need work. For example, entry floors which were not replaced have cracked and will require repair or the buildings will face code violations. Foundations in the basements are cracked in several places but are much too expensive to repair.

6. Permanent Financing

There are three sources of permanent financing for the Borinquen project: a first mortgage in the amount of $750,000 from the Illinois Housing Development Authority, a second mortgage in the amount of $1,272,491 from the Chicago housing department, and the Low Income Housing Tax Credit (LIHTC) equity from the Chicago Equity Fund in the amount of $605,340. [1] The first mortgage and the second mortgage were structured as mini-perms to finance both the construction period and permanent financing. These loans are both completely non-interest bearing, which is a departure from policy for both IDHA and DOH and required special consideration and approval

In addition, there is a bridge loan from LISC for six years to provide capital to the project while the proceeds of the Tax Credit equity are paid in over the same period. By 1996, the bridge loan will be retired and the Tax Credit equity funds will have completely replaced the bridge loan for permanent funding of the property. The equity payments are being used solely

[1] This includes a $100 contribution by LUCHA as the general partner

to 1) repay the principal on the bridge loans, 2) pay the interest on the bridge loans, and 3) pay development fees.

The terms of the permanent financing are as follows:

- **First Mortgage, IHDA, $750,000:** The IHDA loan bears an interest of 0%, and matures in 30 years. During years 1-5 (including the construction period), the monthly principal payment equals 25% of available cash flow. During the remainder of the term, equal principal and interest installments will be made. For purposes of the present value analysis presented in Exhibit 2, it is assumed that payments are $0 for the first six years and equal principal payments thereafter, since it cannot be assumed that the project will have any significant cash flow and there is no accrual of cash flow payments if they are not available. It is doubtful that this project will have substantial cash flow. The loan is prepayable.

- **Second Mortgage, Chicago Department of Housing (CDBG/Rental Rehabilitation) Loan, $1,272,491:** The DOH loan also bears an interest rate of 0% and matures in 30 years. During years 1-5 (including the construction period), the monthly principal payment equals 50% of available cash flow. During the remainder of the term an annual principal payment must be made equal to $30,000 plus 25% of cash flow. For purposes of the present value analysis presented in Exhibit 2, it is assumed that payments are $0 for the first six years and that only the principal payments are made thereafter, since it cannot be assumed that the project will have any significant cash flow and there is no accrual of cash flow payments if they are not available. It is doubtful that this project will have substantial cash flow. The loan is prepayable.

- **Tax Credit Equity, $605,340:** The Tax Credit equity is paid in over a six year period through 1996.

7. Lease-Up and Occupancy

The project was leased up soon after completion; most of the residents had been temporarily relocated and simply moved back in after the rehabilitation. The project currently has 3 vacant units. They are all three-bedroom units and need to be occupied by Section 8 certificate holders to maintain the existing revenue stream on the property. LUCHA is having difficulty finding eligible tenants for these units, and they have been vacant for several months.

8. On-Going Operations

Management of the project is provided by LUCHA. They receive a management fee of 6%, but on such a small property that is barely enough to pay the salary of the resident manager. LUCHA relies partially on an outside firm for accounting management functions.

The project does not have any significant operating reserves, and the additional syndication proceeds coming in from CEF are pledged to the repayment of the LISC bridge loan and to payment of the developer's fee.

Current rents for the apartments range from $330 to $383 for the non-Section 8 units, and from $465 to $525 for the Section 8 units.

9. Other Activities by Nonprofit Sponsor

LUCHA also provides, on a community-wide basis, housing counseling, housing weatherization services, home repairs for seniors, and emergency home repairs They sponser block clubs to stabilize neighborhoods, and they are currently planning several other housing developments including a 71-unit SRO building.

10. Development Costs/Analysis of Data

Exhibit 1 summarizes the sources and uses of cash and non-cash resources for the development of the Borinquen Apartments. The developer's fee and the interest on the bridge loans are included as project development costs although actual payment occurred after the construction period.

There were no grants received for this project, and no donated services or reductions in fees by service professionals such as attorneys or architects. Subsidies to the project during the development period came in the form of below market interest rate subsidies.[2] In addition, the value of LUCHA staff time contributed to the project has been estimated at $115,000 based on three years of a full time staff member at $30,000 per year (including benefits) and six months of a staff person at $50,000 These are shown in Exhibit 1 in the non-cash source column.

Exhibit 2 summarizes other financial data for the Borinquen project, including various descriptive statistics and data used for cross-comparison of all 15 case study projects. The present value calculation at the end of the table shows the value of subsidies provided over the life of the project from grants and non-cash contributions, the below-market interest rate on the IHDA loan, and the below-market interest rate on the DOH loan.

11. Summary and Sponsor Recommendations

LUCHA feels that the most difficult part of the project was obtaining appropriate financing. Due to the length of time it took to obtain financing, LUCHA had to keep extending

[2] IHDA loan subsidy ($750,000 x .50 x .10 x .92 = $34,500). One point is $750,000 x .01 = $7,500 Total = $42,000

DOH loan subsidy ($1,272,491 x .50 x .10 x 11/12 = $58,323). One point is $1,272,491 x .01 = $12,724. Total = $71,047.

the options on the three buildings, each of which had a different private owner. The options and options extensions were time-consuming and complicated, and the options costs increased the total acquisition basis above what they had envisioned.

In terms of successfully operating a nonprofit, the LUCHA director feels that in general nonprofit salaries are too low to create an incentive to keep employees on the staff. LUCHA has experienced turnover when staff developers get a year or two of experience at LUCHA, then leave for a private sector job with higher wages.

EXHIBIT 1

Sources and Uses of Cash and Non-Cash Resources

Borinquen Apartments

I Sources of Funds	Cash	Non-Cash	Total
1 IHDA Loan	$750,000	$41,875 [1]	$791,875
2 Chicago City DOH Loan	$1,272,491	$71,047 [2]	$1,343,538
3 CEF Tax Credit Equity	$605,340	$0	$605,340
4 Non-Cash Developer's Fee	$0	$89,106	$89,106
5			$0
6			$0
7			$0
8			$0
9			$0
10			$0
11			$0
12			$0
13			$0
14			$0
15			$0
TOTAL	$2,627,831	$202,028	$2,829,859

II Uses of Funds	Out-of-Pocket	Non-Cash Contribution	Total
Planning and Design	$37,967	$0	$37,967
Acquisition	$439,787	$0	$439,787
Finance/Carrying Charges	$18,807	$112,922	$131,729
Relocation	$19,982	$0	$19,982
Construction	$1,857,036	$0	$1,857,036
Real Estate Taxes	$23,054	$0	$23,054
Marketing	$1,984	$0	$1,984
Reserves	$0	$0	$0
Legal and Organization (including Development Consultants)	$37,372	$0	$37,372
Developer's Overhead/Staff	$0	$0	$0
Developer's Fee	$71,075	$89,106	$160,181
Syndication Costs	$120,767	$0	$120,767
TOTAL	$2,627,831	$202,028	$2,829,859

III. Contributions	Cash	Non-Cash	Total
TOTAL	$0	$202,028	$202,028

Nominal Expected Rate for Combined Developer's Fee, Overhead, and Staff Costs as a Function of Total Development Costs Net of These Costs = 6 0%

Notes 1 750,000*1 0% + 750,000*10 0%*11/12*0 5

2 1,272,491*1 0% + 1,272,491*10 0%*11/12*0 5

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EXHIBIT 2

Summary of Financial Data Analysis

Boringuen Apartments

		%
CASH EQUITY	$605,340	21 4%
DEBT FUNDS	$2,022,491	71 5%
NON-CASH RESOURCES	$202,028	7 1%
TOTAL RESOURCES	$2,829,859	100 0%
Percent Public Resources	$2,135,413	75 5%
Percent Private Resources	$694,446	24 5%
OUT-OF-POCKET COSTS	$2,627,831	92 9%
VALUE OF SUBSIDIES AND DONATIONS	$202,028	7 1%
FULL COST (Including Subsidies and Donations)	$2,829,859	100 0%

COSTS BY CATEGORY		%
Planning and Design	$37,967	1 3%
Acquisition	$439,787	15 5%
Finance/Carrying Charges	$131,729	4 7%
Relocation	$19,982	0 7%
Construction	$1,857,036	65 6%
Real Estate Taxes	$23,054	0 8%
Marketing	$1,984	0 1%
Reserves	$0	0 0%
Legal and Organization (including Development Consultants)	$37,372	1 3%
Developer's Overhead/Staff	$0	0 0%
Developer's Fee	$160,181	5 7%
Syndication Costs	$120,767	4 3%
TOTAL	$2,829,859	100 0%
LAND COST ESTIMATED	$40,050	
TOTAL LESS LAND COSTS	$2,789,809	

	Including Land	**Without Land**
Normalized Full Cost (Location and Year)	$2,593,943	$2,557,232
Normalized Standard Unit Cost	$55,636	$54,849
Initial Rent	$411	
Initial Rent as a Percent of FMR	54 1%	
Initial Standardized Rent	$326	
Initial Standardized Rent as a Percent of Median Income	8 1%	
Affordability Level	27 0%	
Required Rent if Fully Market-Financed	$765	
Percentage Increase Required Over Actual	86 0%	
Percentage Increase Required Over Tenant Payment	332 0%	
Present Value of Subsidies and Donations	$1,899,119	

WORKSHEET

Borinquen Apartments

1. Normalized Full Cost	*with land*	*without land*
a Full Cost	$2,829,859	$2,789,809
b Time Factor	1 02	1 02
c Location Factor	0 90	0 90
d a*b*c	$2,593,943	$2,557,232
2. Number of Standard Units		
a Total Square Feet	39,350	
b a/844	46 62	
3 Normalized Standard Unit Cost		
a 1d/2b	$55,636	$54,849
4. InitialRent as a Percent of FMR		
a Initial Rent (wgted by avg unit size)	$411	
b FMR	$760	
c a/b	54 1%	
5 Initial Standardized Rent as % of Mean		
a Actual Units	37	
b Actual Units/2b	0 79	
c b*Initial Rent (=Standard Rent)	$326	
d Median Income	$48,400	
e c/(Median-Income/12)	8 1%	
6. Affordability Level		
a Initial Standard Rent (5c)	$326	
b (a/ 30)*12	$13,047	
c b/Median Income	27 0%	
7 Required Rent if Financed		
a Full Development Cost	$2,829,859	
b Equity	$605,340	
c a−b=principal	$2,224,519	
d Debt Service at Market	$528	
e Monthly Operating Cost + Reserve	$237	
f d+e=Required Rent	$765	
g Percent Increase Required	86 0%	
h Average Tenant Payment	$177	
i Percent Increase Required	332 0%	
8. PV of Subsidies and Donations		
a Grants and Cash Contributions	$0	
b Non−Cash Contributions	$202,028	
c Diff of PV of Actual & Market Loan	$1,697,091	
d a+b+c	$1,899,119	

BLUE HILLS TAKE PART
Kansas City, Missouri

1. Overview

Blue Hills Take Part is a two-property, Low Income Housing Tax Credit (LIHTC) project developed by the Blue Hills Homes Corporation. The two buildings, called the Shelby (at 3532 Troost Street) and the Parkway (at 1214-20 Brush Creek), are located in different neighborhoods in Kansas City, Missouri. Judging from the unique architectural characteristics of some of the buildings, the neighborhoods in which these two buildings are located were once home to more affluent families. However, many of those families have moved away Businesses along the commercial street near the Shelby are limited to a video store, cocktail bar, and vacant buildings, while the area near the Parkway has a rundown laundromat and at least one vacant multifamily building across the street. (Blue Hills has also been trying to acquire the building to convert it to additional rental housing for lower income families.)

Preliminary feasibility work for the project took place in 1988. The Parkway and the Shelby were acquired from two different owners in November 1988 and March 1989, respectively Rehabilitation began shortly after May 1989 and was substantially completed by the end of November 1989, at which time the occupancy permits were issued The units were 95 percent occupied by the 1st of January 1990.

Both of the three-story buildings have wood joists and brick veneer. The nonprofit took care to retain all of the unique architectural characteristics of the structures and to choose paint colors carefully to blend with the color of the brick and the tree-lined lots. Additional living space was created by weatherizing former back porches. Back stairs were added to each of the buildings for added safety. The Shelby contains six 2-bedroom, 1-bath rental units of 1,000 square feet each, and the Parkway contains twelve 2-bedroom, 1-bath rental units with 900 square feet each. The nonprofit is responsible for property management and lawn maintenance. All of the tenants are female- headed households. One hundred percent of the units are rented to former residents of the neighborhoods.

In addition to using LIHTC, financing for the project was secured from the Missouri Housing Development Commission (the State housing finance agency), a local bank, a local private foundation, and the city's housing agency. Boatmen's First National, the participating bank, took the place of another lender that pulled out of the deal The Kansas City Neighborhood Alliance (KCNA) encouraged the nonprofit to choose the limited partnership approach and helped to structure the layers of debt financing to make the development possible.

2. Sponsor and Development Team

The nonprofit sponsor and general contractor was the Blue Hills Homes Corporation (BHHC). Blue Hills Homes Corporation was incorporated in July 1974 During the past 5 years, BHHC has developed 10 projects, including Take Part, and has created 74 units of

affordable housing. In addition, BHHC has assisted the Kansas City (Kansas) Public Housing Authority by renovating 221 units in two of its developments. The nonprofit primarily serves very low income families. This year, it is developing a nine-unit project for victims of domestic violence. In 1984, it developed one commercial office building, which BHHC's offices now occupy.

BHHC created a for-profit subsidiary named Blue Hills Development Corporation, which became the general partner. The limited partnership, which became the owner, was named Blue Hills Take Part Limited Partnership The nonprofit had previous development experience (9 projects and over 50 units over the past five years) thus, eliminating the need for the services of a development consultant. The architect and the legal firm were already well known to the sponsor; therefore, bids were not requested for their services. The BHHC executive director, who knew a great deal about the type of assistance needed, negotiated the prices for their services Other development expertise related to the application for and use of LIHTC was obtained from KCNA, which provides research services to community development corporations in Kansas City. The property manager also played an active role in this development and used her years of hands-on experience to select and train the new tenants.

3. Pre-development Period

When considering potential development sites, BHHC canvassed its target areas looking for distressed properties. BHHC attempted to acquire buildings in different neighborhoods to avoid directly impacting just one area or group with "low income housing." Neighborhoods support BHHC's efforts because of this philosophy. BHHC tried to acquire units at an average cost of no more than $5,000 per unit

BHHC first considered undertaking this development in November 1988 when it learned the sale prices of the buildings. BHHC staff determined that they could purchase and rehabilitate the units and rent them at rates that would be affordable to the target population. One of the major funding sources, the Greater Kansas City Community Foundation and Affiliated Trusts, required the units to be targeted to families whose incomes did not exceed 40 percent of the area median, adjusted for family size. In addition, this foundation would not allow any project-based rent subsidy.

The nonprofit purchased the Parkway in November 1988 and the Shelby in March 1989.[1] The staff does not believe that they were given any special consideration for the price of acquisition. The feasibility study performed by the nonprofit was paid for partially out of general operating revenues and partially by a $50,000 loan from LISC that was repaid when the project was funded. The architectural and engineering fees were paid for from equity and development financing. The process to obtain the necessary permits was very time consuming.

[1] The value of the land as opposed to the structures is assumed to be $23,000 total This is estimated based upon true value of acquisition price of lot next to the Shelby site ($5,750). Shelby consists of vacant lot @ $5,750 Parkside is double the size of Shelby. Total lots = 4 @ $5,750 = $23,000.

The nonprofit had to request a special waiver because at least one of the properties did not conform to the minimum lot size.

4. Construction Financing

According to the final disbursement package, the total out of pocket cost of the construction was $577,130, with a total out of pocket development cost of $821,452 (this includes the bridge loan interest from the National Equity Fund of $73,137). All of the sources of construction financing were also sources of permanent financing, with the exception of the LISC loan. The sources of financing were:

- **Pre-development Costs, Blue Hills Homes Corporation, $100.**

- **Acquisition and Feasibility Study Costs, LISC, $50,000** No financing fees were charged on this loan which carried a zero interest rate and was repaid from permanent sources of financing

- **Pre-development Costs, National Equity Fund (NEF), $277,851.** Of this amount, the NEF note is for $204,714 and $73,137 is to be paid in interest. The rate will be repaid in five annual installments, with interest at 11 percent, from the limited partner's annual installments.

- **Acquisition and Rehabilitation, Boatmen's First National Bank, $66,300.** Financing fees were charged for this loan. The State housing finance agency (MHDC)) must share the risk by committing resources and providing the funding to Boatmen's for disbursement. The loan was to be repaid, interest only, at 11 percent between June 1, 1989, and December 1, 1989, then $836.27 per month (this amount includes the "participation" loan from MHDC). The loan carried an adjustable market interest rate capped at 2 percent every 3 years throughout the term, up to 15 percent, 30-year amortization, 15-year balloon payment.

- **Acquisition and Rehabilitation, Missouri Housing Development Commission, $63,700.** Financing fees were not charged. This loan was to be repaid at interest only at 1 percent between June 1, 1989, and December 1, 1989, then monthly payments at 1 percent over a 30-year amortization, with a 15-year balloon payment.

- **Acquisition and Rehabilitation, Kansas City's Housing Development Corporation and Information Center (HDCIC), $270,000.** Financing fees were not charged. This loan carried a zero percent interest rate, and was repaid at $80 per month beginning at construction, increasing to $837 per month after Boatmen's and MHDC are paid in full (indefinite term).

- **Acquisition, Rehabilitation, and Fees, Greater Kansas City Community Foundation and Affiliated Trusts, $143,808.** Financing fees were not charged; the underwriting requirements and other terms of the loan were the same as

Boatmen's. In addition, tenant incomes must not exceed 40 percent of the area median upon initial occupancy and the head of household must be employed. The loan carries a zero percent interest rate with no monthly payment. The principal is due on sale or refinancing, or on June 1, 2029 (40 years).

5. Construction Period

Because the units were vacant, relocation of residents was not necessary. The signed construction contract is dated May 1989, and construction began shortly thereafter. The construction took approximately 6 months, as planned, and the Certificate of Substantial Completion was issued at the end of November 1989. HDCIC monitored all construction costs, and the title company disbursed funds, less a holdback. No infrastructure work was required, aside from utility work related to individually metering the units for which the developer did not receive any discounts from the utility company. However, the nonprofit applied for and received an indefinite-term tax exemption for the real estate taxes on the properties. (Based upon other nonprofit developments in the area, the tax exemption may only be for 25 years.) Each of the project sites required one change order to pay for unexpected work (the removal of asbestos and installation of a new roof). The developer used its own construction management fee and the construction contingency reserve to pay for the overages. Therefore, additional financing was not required nor were the rent levels affected. The actual cost of construction without fees was $577,130

6. Permanent Financing

The sources of permanent financing are included under the sources for construction financing because all of the financing was "rolled over" into permanent financing, except the LISC loan. These sources are:

- $100.00 cash from Blue Hills Homes Corporation.
- $277,851 from National Equity Fund (NEF). Of this amount, the NEF note is for $204,714 and $73,137 is to be paid in interest.
- $66,300 from Boatmen's First National Bank.

  $63,700 from Missouri Housing Development Commission.
- $270,000 from Kansas City's Housing Development Corporation and Information Center (HDCIC).
- $143,808 from Greater Kansas City Community Foundation and Affiliated Trusts

7. Lease-Up and Occupancy

Marketing of the units began about 4 months before completion. The Executive Director and the Property Manager published advertisements in the local newspaper; held an open house; spoke on the radio; and met with the metropolitan ministry, the HDCIC, and the KCNA staff. The funds used for these activities came from the BHHC operational budget. The first occupancy permits were issued in November 1989. By the end of December, at least 95 percent of the 18 units had been leased at the original rent levels of $200 per month for the 900-square foot apartments at the Parkside building and $220 per month for the 1,000-square foot apartments at the Shelby. Utilities were estimated to cost the tenants about $65 per month. As mentioned earlier, BHHC was successful in leasing all of the units to residents from the local neighborhoods. Presently, BHHC is acting as the property manager of these sites, as well as others they have developed. Both of the buildings appear to be in good condition with well-kept lawns that are free from trash.

8. Ongoing Operations

The current financial status of the project indicates that it generates a positive cash flow after paying operational expenses and debt service. During the development phase a reserve was established to fund working capital and operations. This fund continues to exist. Funds do not appear to be added to the account on an ongoing basis, however, and repair costs appear in most quarterly income and expense statements. The staff have stated that to date there have not been any significant operational issues, nor are any anticipated in the near future The rents for the units have been increased by 3 percent, and all the units continue to be leased.

9. Other Activities by Nonprofit Sponsor

Blue Hills Homes Corporation performs a variety of services, including housing development and management, community planning, and food stamp and educational service contract administration. With the exception of the educational services, which are provided statewide, the nonprofit operates in a limited number of neighborhoods besides Blue Hills, namely Manheim Park, Squier Park, Hyde Park, Longfellow, and "49-69 " The nonprofit is not providing any specific services to this development over and above those that it would offer to the other residents of the area. However, BHHC is providing the tenants in all of its developments with a formal, mandatory tenant orientation session and a comprehensive tenant handbook. The funds to offset these expenses come from the operating budget. The staff believe that some of the problems in the area, including prostitution and drugs, have lessened due to their efforts. In addition, BHHC staff believe that fewer units are vacant than when they first began to work in the neighborhoods.

10. Total Development Cost/Analysis of Data

The primary sources of cost information for this case study were the Borrower's Cost Certification, dated November 28, 1989, and the final disbursement packages, dated May 24,

1990. In each of these documents, the costs for direct development ($567,155), insurance ($9,975), title and recording ($4,500), financing fees ($2,600), and acquisition ($99,611) matched. Some of the other costs did not match because they were obtained at two different points in time. (There was a difference of approximately $2,100.) As a result, the costs contained in the final disbursement package were used because it was the most recent document, and it included the bridge loan interest ($73,137).

The final total development cost was approximately $858,282. Of this amount, $93,861 represents the cost of acquisition of the structures; $5,750 represents the cost of a plot of land adjacent to the Shelby. As stated earlier, the developer did not collect much of their anticipated fee because of the increase in construction costs caused by having obtained bids too early, losing original subcontractors to other jobs, and cost overruns (primarily roof replacement and asbestos removal).

Exhibit 1 summarizes financing sources and project costs. There are several sources of non-cash contributions to the project:

- **Contributed staff time**: BHHC did not charge any staff time for predevelopment work to the project. The staff estimates that actual cost of staff time spent on the project was $5,057. This amount is shown both as a non-cash resource and as a contribution under overhead/staff. The "contributed" nature of the staff time is confirmed by the fact that BHHC will receive virtually no fee for the project and thus has no source of funds to reimburse these costs. Although BHHC intended to earn a fee of $32,982, almost all of this amount was used to cover construction cost overruns. The actual fee remaining for BHHC is only $307.

- **Acquisition.** LISC provided $50,000 to cover acquisition. It had to be repaid at zero percent interest at the end of one year. The value is the difference between the zero payment during the construction period and a loan at 10% simple interest (assuming the entire amount was disbursed at once). This is $2,500. Also, a one percent financing fee contribution has been included for a total of $3,000.

- **Financing from the State.** State (MHDC) and city **(HDCIC)** financing were used to cover development costs. Repayment of the State funds ($63,700) begins with interest only payments based on amounts drawn, then principal and interest at 1 percent. The value of the State's MHDC loan during construction is the difference between the interest payments of $159 made during the six months construction period at 1 percent and interest payments of $1,598 at 10 percent.[2] This difference is $1,434. Since no points were charged, one point is added for a total subsidy of $2,071. The value of the MHDC financing subsidy is included as a non-cash contribution in Exhibit 1 and also as a contribution in the line item for carrying charges.

[2] Since portions of the loan amount would be drawn down over the construction period, full interest would not be paid We have used a factor of 5 to adjust the calculated interest payment

- **Financing from the city.** A similar calculation was used to value the city's HDCIC loan. The value of the city's loan is the difference between the payments made during the construction period ($80 per month x 6 months = $480) and a loan for $270,000 at 10 percent simple interest during the same period. Also, a one percent financing fee contribution has been included, for a total of $8,970.

- **Financing from the Greater Kansas City Community Foundation and Affiliated Trusts.** The value of this loan ($143,808) during construction is the value of a loan at 10% because interest and payments were not charged. The interest subsidy ($3,595) plus a one percent financing fee contribution ($1,438) totals $5,033.

Exhibit 2 presents summary financial data for Blue Hills Take Part, including a variety of descriptive statistics. The present value of subsidies and donations includes cash grants and contributions, non cash resources, and subsidies associated with the MHDC, HDCIC, and GKCCFAT loans.

11. Summary and Sponsor Recommendations

Blue Hills Homes Corporation successfully completed their first Take Part project using LIHTC resources. Locating sufficient financing to rehabilitate housing that would be affordable to low income families was a challenge for them. Although a developer's fee had been factored into the original development financing package, the fee had to be used to pay higher out-of-pocket development costs caused by delays in obtaining financial sources and city approvals. The staff learned to take this into consideration in their future projects.

EXHIBIT 1

Sources and Uses of Cash and Non-Cash Resources

Blue Hills Homes

I Sources of Funds	Cash	Non-Cash	Total
1 BHHC Donations	$100	$5,057	$5,157
2 LISC Loan	$0	$3,000 [1]	$3,000
3 NEF Loan Principal	$204,714	$0	$204,714
4 NEF Loan Interest	$73,137	$0	$73,137
5 Boatmen's First National Bank Loan	$66,300	$0	$66,300
6 MHDC Loan	$63,700	$2,071 [2]	$65,771
7 HDCIC Loan	$270,000	$8,970 [3]	$278,970
8 GKCCFAT Loan	$143,808	$5,033 [4]	$148,841
9 Non-Cash Developer's Fee	$0	$12,393	$12,393
10			$0
11			$0
12			$0
13			$0
14			$0
15			$0
TOTAL	$821,759	$36,523	$858,282

II Uses of Funds	Out-of-Pocket	Non-Cash Contribution	Total
Planning and Design	$15,950	$0	$15,950
Acquisition	$99,611	$0	$99,611
Finance/Carrying Charges	$10,332	$19,074	$29,406
Relocation	$0	$0	$0
Construction	$577,130	$0	$577,130
Real Estate Taxes	$1,281	$0	$1,281
Marketing	$0	$0	$0
Reserves	$5,800	$0	$5,800
Legal and Organization (including Development Consultants)	$22,920	$0	$22,920
Developer's Overhead/Staff	$0	$5,057	$5,057
Developer's Fee	$307 [5]	$12,393	$12,700
Syndication Costs	$88,428	$0	$88,428
TOTAL	$821,759	$36,523	$858,282

III Contributions	Cash	Non-Cash	Total
TOTAL	$100	$36,523	$36,623

Nominal Expected Rate for Combined Developer's Fee, Overhead, and Staff Costs as a Function of Total Development Costs Net of These Costs = 6 0%

Notes
1. 50,000*1 0% + 50,000*10 0%*0 5
2. 63,700*1 0% + 63,700*10 0%*6/12*0 5 – 159
3. 270,000*1 0% + 270,000*10 0%*6/12*0 5 – 480
4. 143,808*1 0% + 143,808*10 0%*6/12*0 5
5. Reported fee was $32,982 The balance of $32,675 went to construction overruns

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EXHIBIT 2
Summary of Financial Data Analysis

Blue Hills Homes

		%
CASH EQUITY	$277,951	32 4%
DEBT FUNDS	$543,808	63 4%
NON–CASH RESOURCES	$36,523	4 3%
TOTAL RESOURCES	$858,282	100 0%
Percent Public Resources	$344,741	40 2%
Percent Private Resources	$513,542	59 8%
OUT–OF–POCKET COSTS	$821,759	95 7%
VALUE OF SUBSIDIES AND DONATIONS	$36,523	4 3%
FULL COST (Including Subsidies and Donations)	$858,282	100 0%

COSTS BY CATEGORY		%
Planning and Design	$15,950	1 9%
Acquisition	$99,611	11 6%
Finance/Carrying Charges	$29,406	3 4%
Relocation	$0	0 0%
Construction	$577,130	67 2%
Real Estate Taxes	$1,281	0 1%
Marketing	$0	0 0%
Reserves	$5,800	0 7%
Legal and Organization (including Development Consultants)	$22,920	2 7%
Developer's Overhead/Staff	$5,057	0 6%
Developer's Fee	$12,700	1 5%
Syndication Costs	$88,428	10 3%
TOTAL	$858,282	100 0%
LAND COST ESTIMATED	$22,980	
TOTAL LESS LAND COSTS	$835,302	

	Including Land	Without Land
Normalized Full Cost (Location and Year)	$838,315	$815,870
Normalized Standard Unit Cost	$42,115	$40,988
Initial Rent	$207	
Initial Rent as a Percent of FMR	46 9%	
Initial Standardized Rent	$187	
Initial Standardized Rent as a Percent of Median Income	12 1%	
Affordability Level	40 5%	
Required Rent if Fully Market–Financed	$417	
Percentage Increase Required Over Actual	101 3%	
Percentage Increase Required Over Tenant Payment	101 3%	
Present Value of Subsidies and Donations	$458,700	

WORKSHEET

Blue Hills Homes

	with land	without land
1. Normalized Full Cost		
a Full Cost	$858,282	$835,302
b Time Factor	1 05	1 05
c Location Factor	0 93	0 93
d a*b*c	$838,315	$815,870
2. Number of Standard Units		
a Total Square Feet	16,800	
b a/844	19 91	
3. Normalized Standard Unit Cost		
a 1d/2b	$42,115	$40,988
4. InitialRent as a Percent of FMR		
a Initial Rent (wgted by avg unit size)	$207	
b FMR	$441	
c a/b	46 9%	
5. Initial Standardized Rent as % of Mean		
a Actual Units	18	
b Actual Units/2b	0 90	
c b*Initial Rent (=Standard Rent)	$187	
d Median Income	$18,500	
e c/(Median Income/12)	12 1%	
6 Affordability Level		
a Initial Standard Rent (5c)	$187	
b (a/ 30)*12	$7,487	
c b/Median Income	40 5%	
7. Required Rent if Financed		
a Full Development Cost	$858,282	
b Equity	$277,951	
c a−b=principal	$580,331	
d Debt Service at Market	$283	
e Monthly Operating Cost + Reserve	$134	
f d+e=Required Rent	$417	
g Percent Increase Required	101 3%	
h Average Tenant Payment	$207	
i Percent Increase Required	101 3%	
8 PV of Subsidies and Donations		
a Grants and Cash Contributions	$100	
b Non−Cash Contributions	$36,523	
c Diff of PV of Actual & Market Loan	$422,077	
d a+b+c	$458,700	

SIGNAL HILL TOWNHOMES
Kansas City, Missouri

1. Overview

The 15-unit Signal Hill Townhomes development is located in the 2900 block of Summit Avenue in the Westside neighborhood of Kansas City, Missouri. This newly constructed Low Income Housing Tax Credit project is located in a very hilly neighborhood consisting largely of single-family units throughout the residential section, while the commercial area boasts ethnic restaurants and light industry. A high concentration of Hispanic families (67 percent) lives in the Westside neighborhood. Before Signal Hill was built, crime was on the rise in the area and the vacant site was littered with trash and used for public drinking.

After numerous hurdles that are discussed later in this case study, construction on the townhomes began in May 1989, 4 years after the site was acquired in May 1985. The project was completed 7 months later in December 1989. The project was fully leased in less than 45 days, attesting to not only the need for the units, but also the affordability of the rents, the appeal of the location and the physical characteristics of the units.

The development consists of 15 units in three townhouse-style buildings, each having two stories of living space plus a basement for a garage and a washer/dryer. There are 10 two-bedroom units with one bath each, and 5 three-bedroom units with one and a half baths. The two-bedroom units have 1,477 square feet of living space; the three-bedroom units have 1,745 square feet. These are the largest units among the three developments studied in Kansas City.

The vinyl-sided buildings have wood framing. The three-inch wide siding was carefully chosen to match the exterior style of the wood on the neighboring units. A number of special features both inside and out make the units more appealing and practical to households with young children. These features include dishwashers and kitchens with views into both the dining and living room areas as well as to the outside play areas. The units also include such amenities as central air conditioning, second floor decks, security systems, and energy-efficient windows and doors.

According to the terms of the funding sources, the tenants' income upon initial occupancy may not exceed 60 percent of the median income for the area adjusted for family size All of the units are set aside for low income persons.

2. Sponsor and Development Team

Westside Housing Organization, Incorporated (WHO), sponsored the development of the project. WHO was incorporated in 1973 to focus its services on the Westside neighborhood. WHO has been responsible for housing development for over 5 years but does not have experience in industrial or commercial development In the last 5 years they have developed 8 projects creating a total of 115 units. These developments have served families, elderly, and

handicapped (the Section 202 project they manage serves the elderly and handicapped). Many of their developments are mixed income.

The major members of the development team were the Westside Redevelopment Corporation, which is the for-profit subsidiary of WHO and the General Partner, the architect, the General Contractor and the lenders (Boatmen's Bank in participation with the Missouri Housing Development Commission [the State housing finance agency], and the Kansas City Department of Housing and Community Development). The formal name of the limited partnership is Signal Hill Townhomes Limited Partnership.

The General Contractor was selected through the competitive bid process and was chosen because his bid was closest to the architect's cost estimates. The architect was chosen because WHO had already had experience working with him and WHO had approved his design of the project. The engineer was a company that the architect knew and whose bid for the work came within the cost range established by the Executive Director based upon his research. The local Legal Aid Office provided legal assistance for the various stages of development. (The nonprofit was eligible to receive these services free of charge because of the make-up of its Board of Directors.) Planning, feasibility, and marketing were performed by the nonprofit staff A private consultant helped to prepare and document the complex application for a real estate tax abatement for future taxes. No other major sources of expertise were used for this development.

3. Pre-development Period

The need for additional housing in this neighborhood became apparent to the residents on the board of Westside Housing Organization (WHO) in 1985. With financial assistance from the Local Initiatives Support Corporation (LISC), the nonprofit was able to purchase the vacant land from the Catholic Archdiocese in May 1985.

Westside Housing chose the site because it had high visibility, and the nonprofit wanted to make a statement about its activities and the viability of the area. The nonprofit received no consideration on the price they paid for the site; in fact, they paid slightly more than it was worth and were willing to do so because of the high visibility it offered. It was not until the early part of 1987, however, when serious feasibility analysis of possible uses for the site actually took place At about the same time, the Executive Director of WHO met with an architect who shared his vision for providing tastefully designed, economical rental housing for low income persons, and who was willing to design housing in conjunction with a neighborhood design review committee. The architect already had preliminary plans for townhomes with the potential for an affordable design. Using funds from its own operating budget, WHO began to conduct an informal feasibility assessment by contacting the Kansas City Housing Information Center, other nonprofits, real estate, and rental management firms. The nonprofit also sponsored neighborhood meetings to determine the actual rent affordability levels of prospective tenants, and to gain ideas for a development style the neighbors would accept.

Initially, the WHO Executive Director approached the U.S. Department of Housing and Urban Development for FHA mortgage insurance in order to obtain financing for the development. When he was turned down by HUD because the development did not appear to

be feasible in that market at that time, he had to pursue other sources of financing. At that same time, the Low Income Housing Tax Credit (LIHTC) program had become operational and available, and Missouri became an active participant.

Another important feature of the local market that affected the development was that LISC was playing a very active role in the development of low income housing in Kansas City. LISC had a development consultant assigned to the city who was able to package the type of documentation that was necessary to obtain LISC participation. The WHO staff researched and prepared the balance of materials. Because the Tax Credits could be offered to investors in order to obtain the equity required for the development, it was clear that the best path to getting the project off the ground was to work with LISC, which had a direct line into the equity stream needed. Finally, the state housing finance agency offered below market rate financing and the sponsor/developer obtained participation from a conventional lender in the city to help finance the development.

Obtaining necessary permits was very time consuming. It took 6 months to obtain the variances, easements, and tax abatements needed for the development. No special consideration was provided to the nonprofit during this process either in permit fees or timeliness.

4. Construction Financing

The cost of preconstruction and construction financing for Signal Hill included:

- **Pre-development Costs, Westside Housing Organization, $100 cash** (plus WHO staff time in development activities).

- **Pre-development and Development Costs, National Equity Fund, $422,129**: Of this amount, the NEF note is $305,622 and $116,507 is to be paid in interest. Financing fees were required. This note will be paid in six annual installments, including 10.95 percent interest, as the limited partners pay in their annual contributions.

- **Acquisition, LISC, $12,500**: LISC provided this loan, at zero percent interest, for acquisition of one acre of vacant land at 29th and Summit Streets. The loan was to be repaid by December 14, 1986 out of construction/permanent loan funds.

- **Development Costs, Boatmen's First National Bank of Kansas City, $255,000**: Financing fees were required. Repayment terms provided for interest only on draws until January 1, 1990, then monthly installments of principal and interest of $3,128 until January 1, 2005, at which time the remaining principal and accrued interest will be due. The annual interest is 11.5 percent.

- **Development Costs, Missouri Housing Development Commission (MHDC), the state housing finance agency, $245,000**: Placed with Boatmen's Bank to be used along with Boatmen's Funds. Repayment terms are the same as Boatmen's,

except that the interest rate is 1 percent per annum. Together, the Boatmen's loan and the MHDC funds are the first lien on the property.

- **Development Costs, Housing Development Corporation and Information Center (HDCIC), $300,000 (CDBG funds)**: Financing fees were not charged From April 15, 1990 to April 15, 2020, $150/month will be due. This amount is not applied to principal reduction or to interest Beginning May 1, 2020, on the first day of the month in which the first lien note with Boatmen's Bank has been paid in full, monthly installments of principal and interest of $3,313 will be due until April 1, 2023 at which time the remaining unpaid principal and accrued interest will be due. The interest rate will change from 0 percent to 3 percent on May 1, 2020

5. Construction Period

Since the land was vacant, there was no relocation activity. Construction began in May 1989 and was completed as planned between November and December 1989. There was unusual site preparation, including rock removal based on soil tests, but it was anticipated and included in the development budget. However, the actual cost of the site preparation exceeded the original estimate by $8,849, which resulted in a change order. Additional change orders and upgrades totalled $16,162. The change orders were paid for out of the original construction contingency amount and from the developer's fee.

The total out of pocket cost of construction was $899,575. All of the required infrastructure, including water, sewer, and utilities had to be built and was part of the development costs. The municipality assisted by providing approximately $28,000 worth of curb and sidewalk work. (The source was public improvement funds from a city sales tax fund).

6. Permanent Financing

The sources of permanent financing have been identified below. The Boatmen's Bank loan, including the MHDC and the HDCIC funds, became permanent loans and replaced the $12,500 loan from LISC. The National Equity Fund bridge loan filled the gap in equity. Final sources included:

- $100 cash from Westside Housing Organization for pre-development costs.
- $422,129 from National Equity Fund· Of this amount, the NEF note is $305,622 and $116,507 is to be paid in interest.
- $255,000 from Boatmen's First National Bank of Kansas City.
- $245,000 from Missouri Housing Development Commission (MHDC), the state housing finance agency.

- $300,000 from Housing Development Corporation and Information Center (HDCIC).

7. Lease-up and Occupancy

Approximately 30-45 days before completion of the units, the staff of WHO held the last of a year-long series of neighborhood meetings and met again with social service agencies to announce the imminent completion of the units. Occupancy permits were issued on the completed units beginning in November and were fully issued by December 1989. Because of the high visibility, the need for low-cost, quality rental housing, the proximity of the units to "downtown", and the positive relationships that WHO has developed with its neighborhood residents, the units achieved 100 percent occupancy 45 days after construction was completed. The rent levels have remained the same over the past 2 years at $366 per month for two-bedroom units and $410 per month for three-bedroom units. At one time one unit was occupied by a resident with a Section 8 voucher. This is no longer the case. Originally 12 out of 15, or 80 percent, of the initial residents came from the nearby neighborhood Now, 8 out of 15, or 53 percent, are from the neighborhood. There is also a mix of ethnic groups in the development including blacks, whites, and Hispanics. As with its other developments, WHO is providing property management for the units.

8. Ongoing Operations

According to WHO's Executive Director, the property is fully leased up and operating with a positive cash flow of approximately $2,733 annually after paying debt service. Thus far, $16,000 has been set aside for replacement reserves from operating revenues. If there was a vacancy loss of 5 percent, the Executive Director has calculated that the development would operate at a loss of only $693 for the year. Given the quality of the development and the existing waiting list, it seems unlikely that there will be extensive vacancies, however. The project initially established and now continues to fund a reserve for replacement and repairs at the rate of $2,000 per year. The property received a 100 percent real estate tax abatement on the improvements only, for a period of 25 years

9. Other Activities by Nonprofit Sponsor

WHO's primary service is housing development, while its other services include housing management, home repair and weatherization, community planning, advocacy, administration of revolving loan funds, managing a tool lending library, performing energy audits, and acting as a real estate brokerage agency for its neighborhood.

As mentioned above, the nonprofit's ongoing relationship with the development is as the property manager; it does not provide other services solely to the residents of the property. Instead, the nonprofit carries out other services in the neighborhood as a whole. WHO maintains close relations with other social services agencies to which it refers people as needed. These activities are supported through the nonprofits' operations account.

As a result of their efforts in building attractive, spacious townhomes on a large, highly visible corner lot, trash and other problems no longer exist. In addition, neighboring units on the way to and across from the new units are getting facelifts in the form of exterior paint, new front porches, and some are sporting bright, colorful flower gardens that enhance the beauty of the block. WHO believes that property values have been increasing.

An example of the success of the design is that a nonprofit in Kansas City borrowed the plans and has completed the construction of similar townhomes for more low income families in another neighborhood in the city.

10. Total Development Costs/Analysis of Data

The materials used to determine the actual costs for the development were the lender's Construction Disbursement Summary dated May 16, 1990, and the Comparison of Budgets prepared by the Executive Director dated June 1990. Exhibit 1 includes a breakdown of cash and non-cash resources and all development costs. Interest expenses associated with syndication pay-ins are identified.

In Exhibit 1, there are several sources of non-cash contributions to the project:

- **Legal Aid**. The WHO staff received legal assistance throughout the development period. The WHO staff estimates that actual time spent was 275 hours At a loaded rate of $100 per hour, actual costs would be $27,500. This amount is shown both as a non-cash source and as a contribution under legal and organizational.

- **City Infrastructure**. The city paid the costs of sidewalks, curbs, and gutters ($28,000).

- **Financing from the State**. State (MHDC) financing was used to cover development costs. Repayment of the state funds ($245,000) begins with interest only payments based on amounts drawn, then principal and interest at 1 percent from project income. The value of the state's MHDC loan during construction is the difference between the interest payments made during the construction period at 1 percent and interest payments at 10 percent. Also, a one percent financing fee contribution has been included. The value of the MHDC financing subsidy is included in non-cash contributions in Exhibit 1 and also as a contribution in the line item for carrying charges.

- **Financing from the city**. A similar calculation was used to value the city's HDCIC loan. The value of this loan is the difference between the payments made during the construction period ($150 per month x 7 months = $1,050) and a loan for $300,000 at 10 percent simple interest during the same period. Again, a one percent financing fee contribution has been included.

- **Acquisition.** LISC provided $12,500 to cover acquisition. It had to be repaid at zero percent interest at the end of one year. The value is the difference between the interest payment during the construction period (assuming the entire amount was disbursed at once) and a loan at 10% simple interest, $725. Also, a one percent financing fee contribution has been included

Exhibit 2 presents summary financial data for Signal Hill, including a variety of descriptive statistics. The value of capital contributions is based on development period grants and non-cash subsidies plus the present value of subsidies on the long term MHDC and HDCIC loans.

11. Summary

Signal Hill Townhomes provided the Westside Housing Organization with its first new construction multifamily housing development experience.[1] Locating sufficient financing to construct a rental project that would be affordable to low income families was WHO's major challenge. As a result of their experience, the nonprofit staff now understands the financing process and the actual time involved in creating the end product. Their next projects took into consideration the cost of construction overruns and staff time during the pre-development and early development stages by adding in more for a developer's fee. The staff also obtains better financing terms to avoid long term payments that do not reduce the principal balance.

[1] WHO had previously completed three multi-family rehabilitation projects involving a four-unit building, a six-unit building, and a 49-unit building.

EXHIBIT 1

Sources and Uses of Cash and Non–Cash Resources

Signal Hill Townhomes

I. Sources of Funds	Cash	Non–Cash	Total
1 WHO Donations	$100	$53,820	$53,920
2 Legal Aid Donations	$0	$27,500	$27,500
3 City Infrastructure	$0	$28,000	$28,000
4 NEF Loan Principal	$305,622	$0	$305,622
5 NEF Loan Interest	$116,507	$0	$116,507
6 Boatmen's First National Bank Loan	$255,000	$0	$255,000
7 Missouri Housing Dev Comm Loan	$245,000	$8,881 [1]	$253,881
8 Housing Dev Corp & Inf Constr Loan	$300,000	$10,700 [2]	$310,700
9 LISC	$0	$854 [3]	$854
10			$0
11			$0
12			$0
13			$0
14			$0
15			$0
TOTAL	$1,222,229	$129,755	$1,351,984

II Uses of Funds	Out–of–Pocket	Non–Cash Contribution	Total
Planning and Design	$52,399	$0	$52,399
Acquisition	$20,000	$0	$20,000
Finance/Carrying Charges	$15,198	$20,435	$35,633
Relocation	$0	$0	$0
Construction	$899,575	$28,000	$927,575
Real Estate Taxes	$4,519	$0	$4,519
Marketing	$0	$0	$0
Reserves	$59,245	$0	$59,245
Legal and Organization (including Development Consultants)	$8,301	$27,500	$35,801
Developer's Overhead/Staff	$0	$53,820	$53,820
Developer's Fee	$40,485 [4]	$0	$40,485
Syndication Costs	$122,507	$0	$122,507
TOTAL	$1,222,229	$129,755	$1,351,984

III. Contributions	Cash	Non–Cash	Total
TOTAL	$100	$129,755	$129,855

Notes
1 245,000*1 0% + 245,000*10 0%*7/12*0 5 – 245,000*1 0%*7/12*0 5
2 300,000*1 0% + 300,000*10 0%*7/12*0 5 – 1050
3 12,500*1 0% + 12,500*10 0%*7/12
4 Reported fee was $75,000 The balance of $34,515 went to construction overruns

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EXHIBIT 2

Summary of Financial Data Analysis

Signal Hill Townhomes

		%
CASH EQUITY	$422,229	31 2%
DEBT FUNDS	$800,000	59 2%
NON-CASH RESOURCES	$129,755	9 6%
TOTAL RESOURCES	$1,351,984	100 0%
Percent Public Resources	$592,581	43 8%
Percent Private Resources	$759,403	56 2%
OUT-OF-POCKET COSTS	$1,222,229	90 4%
VALUE OF SUBSIDIES AND DONATIONS	$129,755	9 6%
FULL COST (Including Subsidies and Donations)	$1,351,984	100 0%

COSTS BY CATEGORY		%
Planning and Design	$52,399	3 9%
Acquisition	$20,000	1 5%
Finance/Carrying Charges	$35,633	2 6%
Relocation	$0	0 0%
Construction	$927,575	68 6%
Real Estate Taxes	$4,519	0 3%
Marketing	$0	0 0%
Reserves	$59,245	4 4%
Legal and Organization (including Development Consultants)	$35,801	2 6%
Developer's Overhead/Staff	$53,820	4 0%
Developer's Fee	$40,485	3 0%
Syndication Costs	$122,507	9 1%
TOTAL	$1,351,984	100 0%
LAND COST ESTIMATED	$20,000	
TOTAL LESS LAND COSTS	$1,331,984	

	Including Land	Without Land
Normalized Full Cost (Location and Year)	$1,320,532	$1,300,997
Normalized Standard Unit Cost	$47,437	$46,735
Initial Rent	$381	
Initial Rent as a Percent of FMR	79 7%	
Initial Standardized Rent	$205	
Initial Standardized Rent as a Percent of Median Income	13 3%	
Affordability Level	44 4%	
Required Rent if Fully Market-Financed	$678	
Percentage Increase Required Over Actual	77 9%	
Percentage Increase Required Over Tenant Payment	77 9%	
Present Value of Subsidies and Donations	$518,683	

WORKSHEET

Signal Hill Townhomes

1 Normalized Full Cost	*with land*	*without land*
a Full Cost	$1,351,984	$1,331,984
b Time Factor	1 05	1 05
c Location Factor	0 93	0 93
d a*b*c	$1,320,532	$1,300,997
2 Number of Standard Units		
a Total Square Feet	23,495	
b a/844	27 84	
3 Normalized Standard Unit Cost		
a 1d/2b	$47,437	$46,735
4 InitialRent as a Percent of FMR		
a Initial Rent (wgted by avg unit size)	$381	
b FMR	$478	
c a/b	79 7%	
5 Initial Standardized Rent as % of Mean		
a Actual Units	15	
b Actual Units/2b	0 54	
c b*Initial Rent (=Standard Rent)	$205	
d Median Income	$18,500	
e c/(Median Income/12)	13 3%	
6. Affordability Level		
a Initial Standard Rent (5c)	$205	
b (a/ 30)*12	$8,212	
c b/Median Income	44 4%	
7 Required Rent if Financed		
a Full Development Cost	$1,351,984	
b Equity	$422,229	
c a−b=principal	$929,755	
d Debt Service at Market	$544	
e Monthly Operating Cost + Reserve	$134	
f d+e=Required Rent	$678	
g Percent Increase Required	77 9%	
h Average Tenant Payment	$381	
i Percent Increase Required	77 9%	
8 PV of Subsidies and Donations		
a Grants and Cash Contributions	$100	
b Non−Cash Contributions	$129,755	
c Diff of PV of Actual & Market Loan	$388,827	
d a+b+c	$518,683	

Quality Heights Homes
Kansas City, Missouri

1. Overview

Quality Heights Homes is a 40-unit single-family development located in the Wendell-Phillips neighborhood of Kansas City, Missouri. It has been constructed on portions of a nine-block area using the Low Income Housing Tax Credits (LIHTC) to obtain the necessary equity contribution. The neighborhood consists mostly of small, single-family, wood-framed units. Also located in this hilly section of the city is a multifamily, elderly housing development that is now being constructed. The sites for Quality Heights Homes were acquired in 1986. Construction began in October 1987 and units were completed between November 1987 and June 1988. Occupants for all of the units had been selected by the end of March 1988, by which time the development was 95 percent occupied.

All 40 units are three-bedroom rental units that contain 1,008 square feet of living space. The units have been in-filled among pre-existing single-family homes While the units contain quality materials, they are considered an economy class of construction because they are mass-produced modular units. However, the nonprofit provided each with unique front porches and walkways. These homes have wood-joist framing with vinyl siding and economical gas heat. The units all have central air conditioning, appliances, wall-to-wall carpeting, and off-street parking. A group of residents and the property manager patrol the area.

None of the units receives a direct rental assistance subsidy, nor are there any Section 8-assisted units in the development. All of the tenants are employed and, with the exception of the resident manager who occupies one of the units, have incomes at or below 50 percent of the median income for the area adjusted for family size upon initial occupancy. These employment and income-level requirements are mandated by the National Equity Fund.

2. Sponsor and Development Team

The nonprofit sponsors for the development are the Kansas City Neighborhood Alliance (KCNA), the Paseo-Prospect Development Corporation, and the Wendell-Phillips Neighborhood Association. The reason for the cosponsorship by the three nonprofits centers on the need for community support and involvement. KCNA became a 501(c)(3) in May 1980, when they began their development activities on a citywide basis. KCNA is a multipurpose organization whose services include housing development and management (of their own buildings), homeownership and leadership training, community organization, mortgage loan and credit counseling, development of partnership strategies and programs to increase investment, and technical assistance to other community development corporations interested in housing development.

Quality Heights was KCNA's first multiple-unit new construction development. As a result, some of the staff learned their development skills by creating and managing this project. They did, however, obtain the assistance of an experienced development consultant from the

Local Initiatives Support Corporation (LISC), and they had a staff member with development experience.

KCNA created a for-profit subsidiary, the Quality Heights Redevelopment Corporation, to act as the developer and managing general partner. The limited partnership that was formed is called the Quality Heights Association Limited Partnership

Although competitive bids were requested, the general contractor selected for the development was the only contractor that responded within the short time frame allowed because of the deadline for applications for the U.S. Department of Housing and Urban Development (HUD) Housing Development Action Grant Program (HoDAG) funds. The architect and engineer were both known to KCNA because they had made voluntary contributions to KCNA activities Their costs were negotiated by KCNA. In addition, Legal Aid of Western Missouri donated time spent on the pre-development phase, while a private law firm donated a portion of their time before and after development.

3. Pre-development Period

The State of Missouri played an active role and offered Low Income Housing Tax Credits (LIHTC) to low income housing developers based on the documented need for affordable rental housing. LISC was very active in Kansas City at the same time and offered support, staff, and funds to KCNA to assist them in developing low income rental housing. LISC was also the primary source of equity funds, which the development required. The Missouri Housing Development Commission (MHDC), the state housing finance agency, was also offering resources for this purpose, and HUD announced the availability of additional resources under HoDAG.

KCNA, which was founded as the research arm for area community development corporations (CDCs) and had staff expertise and a stable funding base in place, was encouraged to become the first nonprofit in the Kansas City area to embark on direct development using the Tax Credits. KCNA hoped to be able to share what they would learn from their development experiences with other CDCs.

Planning for the development began in the spring of 1986 when the staff from KCNA, with the assistance of the LISC development consultant, researched the area and determined the extensive need for affordable rental housing. At about the same time, a KCNA board member advised staff of the need for affordable rental housing close to his church for its parishioners. A group of area churches that owned some vacant land agreed to donate some of it and sell other portions of it at market value to KCNA to construct new housing. Based on additional research, it was determined that most support services, including schools, were available in the immediate area. The State conferred the power of eminent domain to KCNA to enable them to obtain the remaining sites.

Staff salaries expended on the feasibility study were funded by general operations. In addition, the property acquisition expenses of $39,372 were funded by a loan from LISC, as was

the time that the development consultant charged to the project for conducting the needs study and completing the HoDAG application.

The process to obtain the necessary approvals for permits and variances was extremely time consuming and caused an increase in development costs not only because of the number of months that the approval process took, but also because the city rescinded its approval for the positioning of some water drainage lines after construction had begun. This action required additional engineering and construction work and cost at least an additional $33,000 These additional expenses were paid for by another repayable loan from LISC

4. Construction Financing

The sources of construction financing also became sources of permanent financing, with the exception of the equity investment from the National Equity Fund and Kansas City's funds. The city's funds were taken out by the HoDAG funds. All financing had to be secured prior to obtaining the HoDAG funds. Construction and pre-construction financing for Quality Heights included:

- **Pre-development costs, Quality Heights Redevelopment Corporation $100.00 cash.**

- **Note, National Equity Fund (NEF). $747,901**: The NEF Note totaled $594,252, with $153,649 to be paid in interest. Financing fees were charged. This note will be paid in six annual installments from 1988-1993 as the limited partners pay in their annual contributions. The annual interest rate is 8.5 percent.

- **Consultant and Professional Fees related to Pre-development, LISC, $25,000**: Due in full September 1987. (This debt was later forgiven.)

  Acquisition, Legal, Architectural, and Other Pre-development Costs, LISC, $45,000: This loan was due in full in December 1987.

  Acquisition, Professional Fees, and Other Pre-development Costs, LISC, $49,000: Due in full in November 1987. ($25,000 was later forgiven.)

  Repayment of the LISC funds— $69,000 repaid from MHDC and HoDAG funds.

- **Construction and Permanent Financing, Missouri Housing Development Commission (MHDC), $800,000**: Payments of interest only on this 4 percent, 30 year loan from October 1987 through September 1988 only on sums advanced. Beginning October 1988, principal and interest were due monthly in the amount of $3,819, continuing until paid in full.

- **Interim Construction Financing to be taken out by HoDAG, city of Kansas City, $750,000**: This was a zero percent loan for 50 years.

5. Construction Period

Because the development was new construction, there was no relocation. Construction began with site preparation in October 1987 Individual units were completed as early as November 1987. The last punch list was completed in May 1988. The units came premade in two sections to be placed on prepared foundations. Upon placing the order for the units, 50 percent of the cost had to be paid; the remaining 50 percent had to be paid upon placing and securing the units to each foundation.

The construction period took longer than the original estimate of 5 months because the amount of site excavation exceeded original assumptions, the city took at least 2 months longer to approve the site plan, it took much longer to put the two sections of the homes together than the contractor claimed, and the excessive amount of engineering and site work required to accommodate the city's drainage system design change exceeded what was originally approved. The infrastructure work including soil testing, water, sewer, and utilities were paid for by the development funding sources. The city supplied new sidewalks and curbs, but only to those new units in the area, not to the entire nine-block area (due to the costs). In addition, the property was awarded a real estate tax abatement for the next 25 years.

There were a total of four change orders, two of which were directly related to the change in location of the water drainage system (including additional engineering and excavation work), another dealt with problems caused by underground springs, and another demanded specified work on the units, including the addition of deadbolt locks and shutters. (In addition to LISC coming up with additional financing to pay for the changes in the drainage system, MHDC approved a larger loan to pay for the extensive site excavation work at the point of project inception.) KCNA was forced to use a portion of its developer's fee, the construction contingency, and LISC funds to cover the extra costs.

6. Permanent Financing

The construction financing that became permanent financing came from the following sources:

- $100 cash from Quality Heights Redevelopment Corporation.

- National Equity Fund (NEF), $747,901. The NEF note totaled $594,252, with $153,649 to be paid in interest.

- LISC: Two grants of $25,000 each.

- $800,000 from Missouri Housing Development Commission (MHDC).

- $750,000 from HoDAG at zero percent for 50 years for permanent financing During years 1 through 30, 25 percent of surplus cash annually shall be paid toward principal. During years 31 through 50, monthly payments of principal of

$3,000 and annual payments of 25 percent of surplus cash will be due. Principal balance, if any, will be due and payable 50 years from date of loan.

7. Lease-Up and Occupancy

The first occupancy permits were issued in November 1987, and by March 1988, 95 percent of the units were occupied. The rents that were charged varied as follows: 10 units at $180; 12 units at $230; and 17 units at $290 (one of the units was occupied by the property manager). The rents varied although all units were the same size because the targeted population had different incomes and, thus, different levels of affordability.

Marketing of the units began with the ground breaking in September 1987. The property manager posted ads in the local minority newspaper, passed flyers around the neighborhood, and met with local church leaders and businesses frequented by people in the area. The property manager's time, and the cost of flyers and newspaper ads were paid for from the KCNA operating budget. Upon initial occupancy, 60 percent of the families had either parents or grandparents in the immediate neighborhood.

Initially, the development was managed by a private management firm. However, because of a poor experience with the firm, KCNA decided to hire a member of the firm's staff to serve as the full-time property manager for the development

8. Ongoing Operations

The project does not receive project-based rental assistance of any kind. In accordance with the requirements of NEF, the project was structured to have a prefunded reserve for debt service and unit repairs. According to the audited financial statements for years ending December 31, 1990, and 1991, the Quality Heights development operated at a loss of $3,862 and $3,492, respectively.

Due to the quality and outward appeal of the units, the affordable rents, and the feeling of ownership achieved by living in a single-family detached unit, no vacancies exist at Quality Heights. In fact, there is a waiting list. It is clear from the caring attitude of the KCNA staff, the maintenance of the grounds, and the individual character given to the units by the architect, that the nonprofit is committed to the success of the development. The families who live in these units think of them and treat them as their own homes, as evidenced by the numerous flower gardens and hanging plants.

9. Other Activities by Nonprofit Sponsor

KCNA provides numerous services to the residents of Quality Heights and its other developments, including personal computer training and the "Get Ahead Club," which provides mentoring activities and discussion forums for the residents. The property manager is responsible for the development of this program and many other of the self-improvement projects

geared toward residents. She is also a special volunteer teacher for the children and the female heads of household. She encourages residents to seek more education and assists them in learning about and gaining self-esteem.

Other services provided by KCNA to these and the other neighborhood residents include coordinating roundtable meetings, acting as a newsletter center, and administering the Neighborhood Small Grants Fund, a program of the Greater Kansas City Community Foundation. All of the services and activities provided by KCNA staff are either done on a volunteer basis or paid for out of the operations budget. Others volunteer to help KCNA as well, although KCNA has not documented the value of their contributions. KCNA staff believe that, as a result of their efforts in the neighborhood, crime in the area has been reduced and the educational and self-esteem levels of their tenants have increased.

10. Total Development Costs/Analysis of Data

The final total for the development costs are shown in Exhibit 1. Note that although a developer's fee was included in the LISC development budget, it was not paid due to the cost of construction overruns. As a result, the nonprofit will receive zero fee for this work.[1]

In Exhibit 1, there are several sources of non-cash contributions to the project:

- **Contributed staff time**: KCNA contributed approximately $51,000 in direct staff time This amount is shown both as a non-cash resource under KCNA donations and as a contribution under developers overhead/staff. KCNA has contributed a portion if its developer's fee to cover construction cost overruns, and an additional amount of its fee is currently deferred.

- **Legal**: The KCNA staff received legal assistance throughout the development period. The staff estimates that actual costs would be $125,000. This amount is shown both as a non-cash source and as a contribution under legal and organizational.

- **Land**: Staff estimated the value of donated land at $30,000. This is shown as a non-cash source and as a contribution under acquisition.

- **City infrastructure**: The city paid $186,000 for the costs of sidewalks, curbs, and gutters. This amount is shown both as a non-cash source and as a contribution under construction.

[1] This included the work required to document the need for the development, obtain financing, obtain the city's approval of the plans, monitor the contractor to complete construction, and defend taking some of the land for the units by eminent domain

- **Materials:** Staff estimated the value of donated construction materials at $44,000. This is shown as a non-cash source and as a contribution under construction.

- **Grants from LISC:** LISC provided a total of $119,000 to the project of which $50,000 was forgiven, i.e., converted to grants. The remaining $69,000 was used to cover other construction expenses and had to be repaid at zero percent interest at the end of one year The value is the difference between the payment during the construction period ($0) and a loan at 10% simple interest, for eight months, assuming a 50% balance. Adding one point yields a total of $2,990.

- **NEF:** The value of the NEF loan during construction is the difference between the interest payments made during the construction period at 8.75 percent and interest payments at 10 percent. This appears as a non-cash source and as a carrying charge contribution. Financing fees were charged rather than contributed.

- **Financing from the State:** Both state (MHDC) and city (HDCIC) financing were used to cover development costs. Repayment of the state funds ($800,000) begin with interest only payments based on amounts drawn, then principal and interest at 4 percent until paid.

  The value of the state's MHDC loan during construction is the difference between the interest payments made during the construction period at 4 percent (8/12 of $32,000) and interest payments at 10 percent (8/12 of $80,000). This difference results in payments of $16,000 (32,000/2).[2] A one percent financing fee of $8,000 is an added contribution because none was charged. The value of the MHDC financing subsidy is included in non-cash contributions in Exhibit 1 and also as a contribution in the line item for carrying charges.

- **HoDAG:** A similar calculation was used to value the HoDAG (which replaced the HDCIC loan) of $750,000. The value is the difference between the payments during the construction period ($0) and a loan for $750,000 during the same period A one percent financing fee of $7,500 is also added.

Exhibit 2 presents summary financial data for Quality Heights, including various descriptive statistics. The present value of subsidies and donations includes the value of grants and non cash contributions plus subsidies associated with MHDC and city loans.

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[2] Since portions of the loan amount would be drawn down over the construction period, full interest would not be paid. We have used a factor of 5 to adjust the calculated interest payment

11. Summary

Quality Heights provided the Kansas City Neighborhood Alliance staff with its first multifamily development and LIHTC experience. They relied heavily on LISC for expertise and financing. Based upon their experience, they became well equipped to provide other nonprofit community development corporations with expert guidance both in terms of development and financial packaging. Immediately following the completion of Quality Heights, KCNA assisted both Westside Housing Organization and Blue Hills Homes Corporation with their development and financing activities.

EXHIBIT 1

Sources and Uses of Cash and Non-Cash Resources

Quality Heights

I. Sources of Funds	Cash	Non-Cash	Total
1 KCNA Donations	$100	$51,000	$51,100
2 Legal Donations	$0	$125,000	$125,000
3 Land Donations	$0	$30,000	$30,000
4 City Infrastructure	$0	$186,000	$186,000
5 Materials Donations	$0	$44,000	$44,000
6 LISC Grant	$50,000	$0	$50,000
7 LISC Loan	$0	$2,990 [1]	$2,990
8 NEF Loan Principal	$594,252	$2,389 [2]	$596,641
9 NEF Loan Interest	$153,649	$0	$153,649
10 Missouri Housing Dev Comm Loan	$800,000	$23,947 [3]	$823,947
11 HoDAG	$750,000	$32,500 [4]	$782,500
12 Non-Cash Developer's Fee	$0	$71,110	$71,110
13			$0
14			$0
15			$0
TOTAL	$2,348,001	$568,936	$2,916,937

II Uses of Funds	Out-of-Pocket	Non-Cash Contribution	Total
Planning and Design	$58,402	$0	$58,402
Acquisition	$39,372	$30,000	$69,372
Finance/Carrying Charges	$39,103	$61,826	$100,929
Relocation	$0	$0	$0
Construction	$1,895,066	$230,000	$2,125,066
Real Estate Taxes	$1,409	$0	$1,409
Marketing	$4,482	$0	$4,482
Reserves	$51,867	$0	$51,867
Legal and Organization (including Development Consultants)	$56,651	$125,000	$181,651
Developer's Overhead/Staff	$0	$51,000	$51,000
Developer's Fee	$43,000	$71,110 [5]	$114,110
Syndication Costs	$158,649	$0	$158,649
TOTAL	$2,348,001	$568,936	$2,916,937

III. Contributions	Cash	Non-Cash	Total
TOTAL	$50,100	$568,936	$619,036

Nominal Expected Rate for Combined Developer's Fee, Overhead, and Staff Costs as a Function of Total Development Costs Net of These Costs = 6 0%

Notes
1. 69,000*1 0% + 69,000*10 0%*8/12*0 5
2. 594,252*10 0%*8/12*0 5-17,419
3. 800,000*1 0% + 800,000*1 0%*8/12*0 5-10720
4. 750,000*1 0% + 750,000*10 0%*8/12*0 5
5. KNCA reports that $32,000 of this may eventually be realized as a cash developer's fee by sponsor, a portion of the funds budgeted for developer's fee will also end up being applied to construction cost overruns

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EXHIBIT 2

Summary of Financial Data Analysis

Quality Heights

		%
CASH EQUITY	$798,001	27 4%
DEBT FUNDS	$1,550,000	53 1%
NON-CASH RESOURCES	$568,936	19 5%
TOTAL RESOURCES	$2,916,937	100 0%
Percent Public Resources	$1,792,447	61 4%
Percent Private Resources	$1,124,490	38 6%
OUT-OF-POCKET COSTS	$2,348,001	80 5%
VALUE OF SUBSIDIES AND DONATIONS	$568,936	19 5%
FULL COST (Including Subsidies and Donations)	$2,916,937	100 0%

COSTS BY CATEGORY		%
Planning and Design	$58,402	2 0%
Acquisition	$69,372	2 4%
Finance/Carrying Charges	$100,929	3 5%
Relocation	$0	0 0%
Construction	$2,125,066	72 9%
Real Estate Taxes	$1,409	0 0%
Marketing	$4,482	0 2%
Reserves	$51,867	1 8%
Legal and Organization (including Development Consultants)	$181,651	6.2%
Developer's Overhead/Staff	$51,000	1 7%
Developer's Fee	$114,110	3 9%
Syndication Costs	$158,649	5 4%
TOTAL	$2,916,937	100 0%
LAND COST ESTIMATED	$69,372	
TOTAL LESS LAND COSTS	$2,847,565	

	Including Land	Without Land
Normalized Full Cost (Location and Year)	$3,023,333	$2,951,430
Normalized Standard Unit Cost	$63,286	$61,781
Initial Rent	$243	
Initial Rent as a Percent of FMR	47.6%	
Initial Standardized Rent	$203	
Initial Standardized Rent as a Percent of Median Income	14 4%	
Affordability Level	48 0%	
Required Rent if Fully Market-Financed	$638	
Percentage Increase Required Over Actual	162 5%	
Percentage Increase Required Over Tenant Payment	162 5%	
Present Value of Subsidies and Donations	$1,718,649	

WORKSHEET

Quality Heights

	with land	*without land*
1. Normalized Full Cost		
a Full Cost	$2,916,937	$2,847,565
b Time Factor	1 11	1 11
c Location Factor	0 93	0 93
d a*b*c	$3,023,333	$2,951,430
2. Number of Standard Units		
a Total Square Feet	40,320	
b a/844	47 77	
3. Normalized Standard Unit Cost		
a 1d/2b	$63,286	$61,781
4 InitialRent as a Percent of FMR		
a Initial Rent (wgted by avg unit size)	$243	
b FMR	$510	
c a/b	47 6%	
5. Initial Standardized Rent as % of Mean		
a Actual Units	40	
b Actual Units/2b	0 84	
c b*Initial Rent (=Standard Rent)	$203	
d Median Income	$16,950	
e c/(Median Income/12)	14 4%	
6 Affordability Level		
a Initial Standard Rent (5c)	$203	
b (a/ 30)*12	$8,139	
c b/Median Income	48 0%	
7. Required Rent if Financed		
a Full Development Cost	$2,916,937	
b Equity	$748,001	
c a−b=principal	$2,168,936	
d Debt Service at Market	$476	
e Monthly Operating Cost + Reserve	$162	
f d+e=Required Rent	$638	
g Percent Increase Required	162 5%	
h Average Tenant Payment	$243	
i Percent Increase Required	162 5%	
8. PV of Subsidies and Donations		
a Grants and Cash Contributions	$50,100	
b Non−Cash Contributions	$568,936	
c Diff of PV of Actual & Market Loan	$1,099,613	
d a+b+c	$1,718,649	

BAYWOOD APARTMENTS
Fremont, California

1. Overview

Baywood Apartments is a new construction, 82 unit affordable housing complex located on the former Irvington School site in Fremont, California. The site was purchased by the city of Fremont in 1986, and was ultimately developed into three rental projects: Redwood Lodge, a 24 unit Section 202 project for the physically disabled which opened in 1988; Sequoia Lodge, an 81 unit elderly Section 202 which opened in 1989; and Baywood which was completed in September of 1990. The site is well located for family housing near two schools, public transportation, and shopping. The Baywood portion of the project reflects the commitment of the city of Fremont to increasing affordable rental opportunities for lower income families in this high-cost, East Bay market.

Of the 82 units at Baywood, 80 percent, or 66 units, are reserved for households earning less than 60 percent of median income. This affordability level is a condition of receipt of Low Income Housing Tax Credits. In addition, the regulatory agreement with the city of Fremont specifies that 19 of these units be affordable to very low income households (50% of median) and 21 units be affordable to extremely low income households (less than 30% of median) The remaining 16 units are unregulated, reflecting a desire on the part of the community and the nonprofit developer to promote mixed-income development. Current residents of the unregulated units include several high-income tenants (100% to 200% of median) as well as a number of Section 8 Certificate holders.

2. Sponsor and Development Team

Baywood was developed by Eden Housing Inc. (EHI), a nonprofit housing development corporation with 24 years experience in Southern Alemeda County. Founded in 1968 by a group of Hayward, CA area residents, and originally capitalized with a bequest from the Lum family estate, Eden has developed over 1,700 units, including family housing, senior housing, and housing for the disabled. Eden has a 10 person staff and works closely with the city of Hayward and other local jurisdictions on affordable housing projects. Eden was responsible for all of the development at the Irvington School site, including Baywood and the elderly and disabled components.

The city of Fremont was an active participant in the development effort, providing the site, deferred payment loans for pre-development, waivers of amenity fees, and assistance in processing Construction financing was provided by Wells Fargo bank with the permanent mortgage provided by the Savings Associations Mortgage Company (SAMCO). In addition, Chevron Corporation is a limited partner providing over $4 million in equity funds in exchange for federal and state Tax Credits. The project architect and the contractor both worked on the

other projects developed on the site. Finally, EHI used an experienced real estate law firm and a nonprofit Tax Credit consultant to handle the syndication.

The entity created to own the Baywood project is Baywood Associates. Baywood Associates consists of Baywood Apartments Inc. (owned by Eden Housing) as the general partner and Chevron Corporation as the limited partner.

3. Pre-development Period

Planning for the Baywood project began in 1987, shortly after the city purchased the site. Although initial attention was focused on the disabled and elderly projects, it was determined by the city and EHI that a single contractor and architect should be selected to develop all three parcels in order to achieve economies of scale[1]. The Baywood plan emerged over time, and, to some extent, was the result of working backward into the permitted densities, after the first two projects had been finalized. The budget for Baywood also reflected a backing-in process, based on the level of financing that the city would be able to provide.

By early 1988, the Baywood portion of the project had begun to take shape, and Eden's project developer prepared an application to the California Housing Finance Agency (CHFA) for a bond-financed loan. However, prior to submission, Fremont's housing department intervened, recommending that the project seek a private mortgage in order to take advantage of the 9 percent LIHTC.[2] Ultimately, a loan was placed with SAMCO, which made a firm commitment in March of 1989. SAMCO agreed to a "bridge loan" structure under which syndication proceeds would be used to pay down a portion of the $4.9 million loan principal over the first 8 years of the rental period until the remaining balance (approximately $2.6 million) was supportable from project resources.

Once the permanent financing was in place, Wells Fargo Bank was approached for a construction loan. Pre-development costs were covered from roughly $1 million in deferred loans from the city of Fremont. The land was conveyed to Eden Housing at the market value by the city with a zero interest 55-year, deferred payment mortgage and is in turn leased to the project via a ground lease. Baywood received its allocation of Tax Credits in mid-1989. That summer efforts were made to find an investor. Ultimately, Chevron Corporation became the limited partner, committing a total of $4,200,000 over eight years.

Throughout the pre-development process, the city played an active role in expediting approvals and reducing costs. The city waived an amenity fee (developer's contribution towards

[1] The Project Developer estimates that construction costs were reduced by 10 to 12 percent as a result of economies of scale from using a single builder.

[2] Tax Credit rules would limit the project to a 4 percent credit if federal financing (including tax exempt bonds) were used.

green space) worth $25,000 to the project.[3] Baywood also took advantage of a 25 percent density bonus available to affordable housing projects under state law. Finally, there was a concerted effort to coordinate among the various city departments, leading to a very cooperative atmosphere between the developer and local government personnel.

Eden also worked closely with a citizen's committee throughout planning and development stages. One outcome of this was the decision to include 16 market rate units, reflecting a strong philosophical commitment to mixed-income housing. Another issue which had to be resolved was the use of the 1,000 square foot community building which sits at the center of Baywood's six two- and three- story apartment buildings. In addition to housing the manager's office and serving as community and meeting space, it was hoped by city staff that the space could also accommodate state licensed day care. Ultimately, however, state day care requirements for staff parking spaces precluded this use, since Baywood already incorporated the maximum number of spaces that the site could accommodate. The space, which is extremely attractive, is currently set up as a sitting area and is used for a range of community and family functions

4. Construction Financing

Construction and preconstruction financing for Baywood included:

- $930,000 from the Fremont redevelopment authority in the form of a 9.4 percent, deferred payment loan. According to the loan amendment (12/27/90), the loan and accrued interest are payable from excess cash (after payment of the ground lease described below), and any remaining balance is forgivable after 99 years

- $170,000 commitment from the redevelopment authority for construction contingency on the same terms as above.

- City owned land, valued at $800,000. Eden Housing, as opposed to the project partnership, is the owner of the land, which carries a 55 year note from EHI to the city. The loan carries a zero percent interest rate and is to be repaid from ground lease payments ($35,000 annually), which in turn are dependent on excess cash from the project. Ground lease payments accrue interest at 9.4 percent.

- $5,230,894 construction loan from Wells Fargo bank. The loan was for one year at 12.5% interest, with 75 in points.

[3] Baywood also appears to have paid less than the standard school fee ($75,000 as opposed to $113,676 based on $1 50 per square foot) However, there was no explicit waiver associated with the Baywood portion of the project Waivers had been received for the elderly and disabled portions.

5. Construction Period

Despite some delays in closing the loans identified above, ground breaking for Baywood took place in November of 1989. According to the project developer, the construction process went very smoothly due, in large part, to good architectural specifications and a builder who was attentive to detail. Construction was completed and occupancy permits issued in September 1990. The project was finished ahead of schedule and slightly under budget. As a result, a portion of the city contingency loan was not used and a smaller initial equity payment was needed (see below.)

6. Permanent Financing

Permanent financing for Baywood involved the replacement of the $5,230,894 Wells Fargo construction loan with a $4,876,974 permanent mortgage loan from SAMCO as well as initial equity funding of $270,519 from Chevron to cover the gap. Sources and terms at the end of the development period were:

- $4,876,974 SAMCO loan, at 9 2 percent for 10 years and adjustable thereafter for the remainder of the 30 year term. As noted above, this loan will be paid down over the first 8 years from syndication proceeds in order to achieve a supportable balance of about $2.6 million In effect, the SAMCO loans combines a permanent loan with a bridge loan against syndication proceeds.

- $930,000 (pre-development) and $117,181 (contingency) from the city at 9.4% (accruing) deferred for 99 years, but repayable from excess cash.

  $800,000 zero interest loan for land repayable by EHI to the city from excess cash via a 55 year ground lease. (The ground lease structure is designed to keep the land in the sponsor's hands for added protection. Since land is not included in the basis for the purposes of Low Income Housing Tax Credits, there is no penalty for keeping the land outside the project. Finally, the ground lease accrues interest at 9 percent, and is debt owed to the sponsor. This may prove useful when the partnership dissolves and the sponsor buys the project back.[4])

- $270,519 letter of credit from Chevron. This amount was an advance on syndication proceeds and was used to cover the gap between development costs paid from the construction loan and the slightly lower permanent loan.

As noted previously, the bulk of the syndication proceeds for Baywood were to be paid in over an eight year period, and were to be used to reduce the principal amount of the SAMCO loan to a level that could be supported from rents. The pro forma on the next page shows overall sources and uses for the project, including (in Column A) the paydown of SAMCO principal and

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The idea is to accrue debt that will equal the fair market value at restricted rents

interest ($2,930,000) from Limited Partner contributions. For the purposes of this analysis, however, we will want to adjust the SAMCO loan balance in order to avoid double counting these resources. This is accomplished in Column B where the SAMCO loan has been reduced by $2,195,547, which is the amount of the principal payments to be made from limited partner equity. The balance from Column A ($2,930,000 - $2,195,547, or $734,453) represents interest on the SAMCO loan (also to be paid from equity) and is in concept similar to interest on a bridge loan This amount is included in Column B under syndication -- representing the cost of raising limited partner equity.

In addition to adjusting for the loan paydown, Column B of the pro forma reallocates various other development and post-development costs to their appropriate cost categories Syndication costs (including consultant fees, partnership management costs, and "bridge" loan interest, are shown separately. It should be noted that Eden's agreement with the city of Fremont limits the amount of developer's fee actually realized by the organization to $52,000 The bulk of the fee shown ($588,000 in fee, plus $252,731 in interest) will be used for reserves

7. Lease-up and Occupancy

The project is managed by EHI Management, a nonprofit subsidiary of Eden Housing Corporation. EHI Management was also responsible for the marketing and lease-up of the project, which was covered by a $18,000 fee included in the development budget The marketing phase went smoothly for Baywood, with EHI Management starting to qualify tenants for the development in March 1990. The lease-up effort took a total six months and was complete by September when the complex was ready for occupancy. Tenants moved in October of 1990.

Several different rent regimes are in effect for the project resulting from the regulatory agreement with the city and the requirements of the LIHTC:

- 21 units are reserved for extremely low income households (under 30% of median). Rents for these units are $298 for 2BR/1Bath, $315 for 2BR/2Baths and $350 for a 3BR/2Baths.

- 19 units are reserved for very low income (under 50% of median). Rents are $367 for 2BR/1Bath, $398 for 2BR/2Baths, and $425 for 3BR.

- 26 units are reserved for households with incomes under 60 percent of median, the Tax Credit limit. Rents in these units range from $449 for 2BR to $557 for 3BR

- 16 units are unregulated. There are no income requirements attached to these units, and, as noted above, occupants have included both higher income tenants and Section 8 certificate holders.

8. On-going Operations

Baywood Apartments is fully occupied and has a waiting list of 250 for the regulated units For 1991 the project showed a deficit of $576,533. There are no pre-funded reserves An operating reserve of $20,000 per year will be built up over the first 5 years from sy̆ndication proceeds.

9. Other Activities by Nonprofit Sponsor

Eden Housing Inc., is engaged in housing development and management activities only. There are no social services provided at the project other than referrals to social service providers as necessary.

10. Full Development Costs/Analysis of Data

Sources and uses of funds for Baywood Apartments are shown in Exhibit 1. This includes cash resources (in the first column) and non-cash items (in the second column.) Non-cash contributions to the project include the following:

- **Land.** Land for the development was provided by the city of Fremont at full market value. However, the loan note carries a zero interest rate, a 55-year term, and is deferred except to the extent that the project generates excess cash. The value of this subsidy to the project depends on one's assumptions about how much and when the loan will be repaid. (Note that repayments come from excess cash applied to the project's ground lease and that the ground lease itself is accruing interest at the rate of 9 percent. For the purposes of this analysis, however, we treat the land as though it were owned by the project partnership and ground lease payments were applied directly to the loan.)

  Although there is considerable uncertainty, most of the participants in this project expect all or a portion of the land loan to be eventually repaid. For this analysis, we will assume that the loan is repaid within 15 years from excess cash used to pay the ground lease and from capital contribution proceeds at the closure of the partnership. Estimated ground lease payments were taken from the project pro forma. The value of the subsidy over the life of the project is the difference between the present value of the expected stream of payments to the city and the present value of payments that would otherwise need to be made on a standard 30 year loan for $800,000 at 10 percent. This amount is shown as a capital contribution in Exhibit 2.

  For the purposes of development costs, however, the subsidy is the difference between the zero payment and an 11 month construction loan at 10% simple interest. We have also added a financing fee of one point since none was charged

originally. This amount is included in Exhibit 1 as a non-cash resource. It is also shown as a contribution under the cost item for acquisition.

- **Deferred construction financing from city loans.** City financing was used to cover pre-development costs and a portion of construction costs. The total amount of these loans is $1,047,181, and the term is 99 years. Payments are deferred and forgivable after 99 years. The loans accrue interest at 9.4 percent and are payable from excess cash after ground lease payments are made. Again there is uncertainty, but most participants see repayment of these loans as unlikely and assume that they will be forgiven. Nevertheless, they are structured as loans in order to be included in the Tax Credit basis. The initial projections show some repayment over the first 15 years from excess cash, and the financing plan states that repayment will be applied from any available capital contributions at the closure of the partnership.

  Assuming that these are true loans with repayment as outlined above, their value during construction is the difference between zero payments made during the construction period and construction interest payments of that would have been made on an 11 month construction loan at 10 percent simple interest. We have also added a financing fee of one point. The value of the city construction financing is included under non-cash resources in Exhibit 1 and also as a contribution in the line item for Carrying Charges.

  The value of the subsidy over the life of the project would be the difference between the present value of the projected payments (assuming all remaining principal and accrued interest is paid in year 15) and the payments that would be made on a 30 year amortizing loan at 10 percent.

- **Waiver of amenity (greenspace) fee.** The city waived the amenity fee worth $25,000. This is shown as a non-cash resource and as a contribution under Planning and Design.[5]

- **Contributed staff time.** EHI received a $52,000 developer's fee for the Baywood project, an amount that was considered well below the organization's actual costs for staff time. Estimates of actual time spent on the project total 3,012 hours. At a loaded rate of $70 hour (agency estimate, before margin) actual staff costs would be $210,840. This amount is shown both as a non-cash resource and as a contribution under overhead/staff.

Exhibit 2 presents summary financial data for Baywood, including various descriptive statistics used to compare the 15 case study projects

[5] The project also received a 25 percent density bonus but this is available as a matter of right to affordable housing projects under state law. No value has been attached.

The exhibit shows that full development costs (including in-kind contributions and financing subsidies during development) were $9,137,673 or about $111,435 per unit. Standardizing across study sites for time and location as well as for unit size, gives a per unit standardized cost of about $82,969 per unit.

The rent comparisons show that initial rents at Baywood were set at 54% of the FMR and at about 12% of median income. The latter is a function of city and Tax Credit requirements that rents be affordable to households with incomes ranging from 60% of median down to 30% of median. The average unit at Baywood would be affordable to a household with an income of 40% of median.

We calculated the required rent for the project based on first year operating costs and estimated debt service assuming that the full costs of development (including all contributions and subsidies) were financed. (The only deduction was investor's equity.) This approximates the rent that would need to be charged to break even assuming no subsidies or contributions. As shown, rents at Baywood would have to be 55 percent higher in the absence of contributions and development period subsidies. Rental subsidies could also affect the gap between "affordable rents" (what tenants pay at 30% of income) and required rents For the purposes of this comparison we assumed that 8 of the 16 market units had Section 8 tenants and that their incomes were equal to 30 percent of the area median

The final number presented in Exhibit 2 is the capital value of subsidies and contributions. This includes the value of grants and financing subsidies during construction plus the value of long term financing subsidies (i.e., the difference between the present value of the actual payment stream and payments on a 30 year loan at 10%.) These amount to $1,096,268 or about 10% of the project value.

11. Summary and Sponsor Recommendations

In completing the Baywood Apartments project, EHI benefitted from a good relationship with the city of Fremont. City provision of land and over $1,000,000 in pre-development and development financing was essential to making the project work. In addition, proceeds from the sale of Tax Credits will allow the project to become self supporting at regulated rents after approximately 10 years. EHI is expected to take the project back after the dissolution of the partnership and to operate it indefinitely as affordable housing.

In performing its development function, EHI is fortunate to have had sources of support that include a small endowment and 25 percent staff coverage from the city of Hayward. EHI staff emphasize the importance of on-going administrative support to enable nonprofits to do this type of work. While such organizations expect to earn fees that can be used to cover staff and (possibly) to build a development fund for future projects, local government funding sources are often reluctant to permit substantial fees to be charged to the project. In this case, for example, the permitted fee amounted to roughly a quarter of the actual cost to the organization. According to EHI staff, this underscores the need of nonprofits for a stable source of operating subsidy to cover staff time as well as up-front funds to cover pre-development costs.

PROFORMA FOR BAYWOOD APARTMENTS

I SOURCES	A With 10 Year Syndication Pay-in	B After Mortgage Paydown	
General Partner Equity	$42,424	$42,424	
Limited Partner Equity	$4,200,000	$4,200,000	
City Loan (Land)	$800,000	$800,000	
City Loan (Preconstruction)	$930,000	$930,000	
City Loan (Contingency)	$117,181	$117,181	
Permanent Loan	$4,867,974	$2,672,427	
TOTAL SOURCES	$10,957,579	$8,762,032	

II USES			Subtotals by Study Category
1 Planning & Design			
Architect/Design	$165,000	$165,000	$165,000
2 Acquisition	$800,000	$800,000	$800,000
3 Carrying Charges			$397,120
Const Loan Fee	$51,877	$51,877	
Perm Loan Fee	$97,360	$97,360	
Const.Loan Interest	$238,267	$238,267	
MBTAC Fee	$9,616	$9,616	
4 Relocation	$0	$0	$0
5 Construction			$5,476,155
Site Work	$0	$0	
Off-site	$22,000	$22,000	
Demolition	$19,445	$19,445	
Construction	$4,496,666	$4,496,666	
Permits and Fees	$826,344	$826,344	
Insurance	$16,200	$16,200	
Personal Property	$95,500	$95,500	
6 Taxes	$12,899	$12,899	$12,899
7 Marketing	$18,000	$18,000	$18,000
8 Reserves	$0	$200,000 (1)	$200,000
9 Org and Legal			$54,500
Title/recording	$11,500	$11,500	
Legal and Audit	$43,000	$43,000	
10 Syndication	$10,000	$797,627 (2)	$797,627
11 Overhead	$0	$0	$0
12 Developer Fee	$52,000	$840,731 (3)	$840,731
13 Other	$0	$0	$0
14 Other Items Post Delopment			
Loan repayment and interest	$2,930,000	$0	
Op Reserve	$100,000	$0	
Reserve fee	$100,000	$0	
Balance of developer fee	$536,000	$0	
Interest on Devel fee	$252,731	$0	
Syndication Costs	$30,000	$0	
Syndication Consultant	$20,000	$0	
Gen Part Mgt Fee	$3,174	$0	
TOTAL USES	$10,957,579	$8,762,032	$8,762,032

(1) Incudes operating reserve and reserve fee
(2) Includes synd cost, consultant, gen ptner fee, and mortage interest paid from proceeds ($734,453)
(3) Includes developers fee and interest

EXHIBIT 1

Sources and Uses of Cash and Non–Cash Resources

Baywood Apartments

I. Sources of Funds	Cash	Non–Cash	Total
1 General Partner Equity	$42,424	$0	$42,424
2 Limited Partner Equity	$4,200,000	$0	$4,200,000
3 City Loan (Land)	$800,000	$81,333 [1]	$881,333
4 City Loan (Pre–construction)	$930,000	$51,925 [2]	$981,925
5 City Loan (Contingency)	$117,181	$6,543 [3]	$123,724
6 Permanent Loan (SAMCO)	$2,672,427	$0	$2,672,427
7 Other Non–Cash Resources	$0	$25,000 [4]	$25,000
8 Staff Time	$0	$210,840	$210,840
9			$0
10			$0
11			$0
12			$0
13			$0
14			$0
15			$0
TOTAL	$8,762,032	$375,641	$9,137,673

II Uses of Funds	Out–of–Pocket	Non–Cash Contribution	Total
Planning and Design	$165,000	$25,000	$190,000
Acquisition	$800,000	$81,333	$881,333
Finance/Carrying Charges	$397,120	$58,468	$455,588
Relocation	$0	$0	$0
Construction	$5,476,155	$0	$5,476,155
Real Estate Taxes	$12,899	$0	$12,899
Marketing	$18,000	$0	$18,000
Reserves	$988,731	$0	$988,731
Legal and Organization (including Development Consultants)	$54,500	$0	$54,500
Developer's Overhead/Staff	$0	$210,840	$210,840
Developer's Fee	$52,000 [5]	$0	$52,000
Syndication Costs	$797,627	$0	$797,627
TOTAL	$8,762,032	$375,641	$9,137,673

III. Contributions	Cash	Non–Cash	Total
TOTAL	$0	$375,641	$375,641

Notes
1. 800,000*1 0% + 800000*10 0%*11/12
2. 930,000*1 0% + 930,000*10 0%*11/12*0 5
3. 117,181*1 0% + 117,181*10 0%*11/12*0 5
4. $25,000 green space fee waiver
5. Reported fee was $840,731 The balance of $788,731 went to reserves

23–Oct–92 11 56 AM

EXHIBIT 2

Summary of Financial Data Analysis

Baywood Apartments

		%
CASH EQUITY	$4,242,424	46 4%
DEBT FUNDS	$4,519,608	49 5%
NON-CASH RESOURCES	$375,641	4 1%
TOTAL RESOURCES	$9,137,673	100 0%
Percent Public Resources	$2,011,982	22 0%
Percent Private Resources	$7,125,691	78 0%
OUT-OF-POCKET COSTS	$8,762,032	95 9%
VALUE OF SUBSIDIES AND DONATIONS	$375,641	4 1%
FULL COST (Including Subsidies and Donations)	$9,137,673	100 0%

COSTS BY CATEGORY		%
Planning and Design	$190,000	2 1%
Acquisition	$881,333	9 6%
Finance/Carrying Charges	$455,588	5 0%
Relocation	$0	0 0%
Construction	$5,476,155	59 9%
Real Estate Taxes	$12,899	0 1%
Marketing	$18,000	0 2%
Reserves	$988,731	10 8%
Legal and Organization (including Development Consultants)	$54,500	0 6%
Developer's Overhead/Staff	$210,840	2 3%
Developer's Fee	$52,000	0 6%
Syndication Costs	$797,627	8 7%
TOTAL	$9,137,673	100 0%
LAND COST ESTIMATED	$800,000	
TOTAL LESS LAND COSTS	$8,337,673	

	Including Land	Without Land
Normalized Full Cost (Location and Year)	$7,449,872	$6,797,638
Normalized Standard Unit Cost	$82,969	$75,705
Initial Rent	$495	
Initial Rent as a Percent of FMR	53 9%	
Initial Standardized Rent	$452	
Initial Standardized Rent as a Percent of Median Income	11 9%	
Affordability Level	39 7%	
Required Rent if Fully Market-Financed	$737	
Percentage Increase Required Over Actual	48 9%	
Percentage Increase Required Over Tenant Payment	53 5%	
Present Value of Subsidies and Donations	$1,096,268	

WORKSHEET

Baywood Apartments

1. Normalized Full Cost	*with land*	*without land*
a Full Cost	$9,137,673	$8,337,673
b Time Factor	1 05	1 05
c Location Factor	0 78	0 78
d a*b*c	$7,449,872	$6,797,638
2. Number of Standard Units		
a Total Square Feet	75,784	
b a/844	89 79	
3. Normalized Standard Unit Cost		
a 1d/2b	$82,969	$75,705
4. InitialRent as a Percent of FMR		
a Initial Rent (wgted by avg unit size)	$495	
b FMR	$919	
c a/b	53 9%	
5. Initial Standardized Rent as % of Mean		
a Actual Units	82	
b Actual Units/2b	0 91	
c b*Initial Rent (=Standard Rent)	$452	
d Median Income	$45,600	
e c/(Median Income/12)	11 9%	
6. Affordability Level		
a Initial Standard Rent (5c)	$452	
b (a/ 30)*12	$18,082	
c b/Median Income	39 7%	
7. Required Rent if Financed		
a Full Development Cost	$9,137,673	
b Equity	$4,242,424	
c a−b=principal	$4,895,249	
d Debt Service at Market	$524	
e Monthly Operating Cost + Reserve	$213	
f d+e=Required Rent	$737	
g Percent Increase Required	48 9%	
h Average Tenant Payment	$480	
i Percent Increase Required	53 5%	
8. PV of Subsidies and Donations		
a Grants and Cash Contributions	$0	
b Non−Cash Contributions	$375,641	
c Diff of PV of Actual & Market Loan	$720,627	
d a+b+c	$1,096,268	

Maria Alicia Apartments
San Francisco, California

1. Overview

Maria Alicia Apartments is a 20-unit, new construction rental project located in the Mission district of San Francisco. All of the units are set aside for low income tenants -- 16 of these under the Low Income Housing Tax Credit program and four with Section 8 certificates. The structure is a four story, wood frame building located on a corner in the heart of the neighborhood The site was originally occupied by the Gartland Apartments which was destroyed by a 1975 fire which claimed at least 12 lives and was widely believed to be a case of arson for profit[1].

In addition to the 20 new rental units, the Maria Alicia project includes two ground floor retail units currently occupied by a book store and a donut shop The project is located one block west of Mission Street, which is the district's primary shopping strip, offering a wide array of grocery, variety, and specialty stores. The Mission neighborhood is a predominantly low income, multicultural community which since World War II has served as a port of entry for Latin American immigrants. More recently, the area has become home to immigrants from Southeast Asia, giving new definition to the cultural and ethnic mix of the neighborhood.

2. Nonprofit Sponsor and Development Team

The developer of the project is the Mission Housing Development Corporation (MHDC), a 20-year old community organization with development experience that includes approximately 450 units of new construction and rehabilitated housing. MHDC became the owner of the Maria Alicia site in 1984. The project was completed in 1989. MHDC supplied basic financial and development expertise; other key team members included an experienced law firm and a non-profit Tax Credit consultant which handled the syndication. The architect was a minority-owned firm from Oakland and the contractor was local. The city of San Francisco provided substantial financing for the project Other financing came from a HoDAG grant, a construction/permanent loan from Wells Fargo Bank, a loan from MHDC, and proceeds from the sale of Tax Credits to Chevron Corporation which is the limited partner.

The ownership entity for Maria Alicia is Maria Alicia Associates, comprised of Maria Alicia, Inc. (MHDC) as the general partner and Chevron as limited partner. Chevron purchased a 99 percent interest in the project for an investment of $1,328,000. In return, Chevron will receive both federal Tax Credits and tax credits provided by the State of California.

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[1] There were no indictments, however.

3. Pre-development Period

The pre-development period began in 1984 when MHDC obtained an option to acquire the Gartland Apartment site. Up to this time, the owner had refused to sell the property to a non-profit, and the site (known as "the pit") had been sitting vacant for almost 10 years. In the meantime, it had served as community performance space, the site for poetry readings, music performances, and graffiti (including a locally famous Free South Africa piece and a mural depicting rodents and bearing the legend "Rats for Profit"). Crosses were also planted in the pit as a reminder of the fire.[2] In 1984, the owner offered to sell the land to a local buyer who in turn offered the option to MHDC. Purchase of the land was accomplished using a $419,000 grant from the city[3]

Initial work on the Maria Alicia project was completed by MHDC's staff developer This included an application for HoDAG submitted in July of 1986. At that point the project appeared to be financially feasible based on the HoDAG, city loans, and private construction financing However, when Low Income Housing Tax Credits became available, MHDC applied for these as well, and received an allocation. Like many of the early LIHTC allocations, the credits were something of an afterthought, and, to some extent, were viewed as "gravy" in an already feasible project

Other pre-development work was completed by MHDC's architectural staff. (MHDC staff costs are paid largely from CDBG funds and are not charged to projects.) The project was supported by the neighborhood and the city, which provided a density bonus of 25 percent and committed to a zero interest loan of $470,181. As the end of 1987 approached, the developer left the organization, to be replaced in early 1988 by a new staff developer In the meantime, it was assumed that closings on the Wells Fargo and HoDAG loans were imminent and that construction could proceed

4. Construction Financing

Construction began on the Maria Alicia site in December 1987, largely on the belief that loans would be closing shortly However, ground breaking proved to be ill advised, since there was no cash to support construction and the loan closings turned out to be delayed considerably The initial upshot was that the contractor stopped work and began charging liquidated damages. Construction began again in earnest in March of 1988, using the city loan of $470,181 to cover initial costs. However, it soon became clear that the HoDAG closing would be delayed even further; in addition, the construction/permanent lender (Wells Fargo) didn't want to close its loan prior to the HoDAG closing

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[2] North Mission News, August, 1989.

[3] The city funds were in the form of a conditional grant and were used to take out a state pre-development land loan used to initially acquire the site.

By summer of 1988, the project had used most of the city loan and was out of money again. Although the city came through with a $400,000 swing loan (to be paid back at the time of the Wells Fargo closing), there were definite costs associated with this "one-source-at-a-time" financing approach. Use of the swing loan cost the project at least $15,000 in interest, plus another loan closing. Before the job was done, MHDC would have to take out an additional short term "emergency loan" from the city and also loan the project $226,547 from its own funds to help cover development costs. MHDC was finally able to close on the Wells Fargo loan in November of 1988. However, the HoDAG loan didn't close until January of 1989.

Sources of construction financing (all of which carry over to permanent) include the following:

- $1,225,000 from Wells Fargo Bank. The loan is for 20 years and carries various rates during different periods: prime plus 1 for the 12 month construction period (assumed to be 10.5%), 10% for the next seven years, 12.5% in the 8th year, and 15% thereafter. Over the first five years of the rental period, the project is obligated to pay down the mortgage by $500,000 from syndication proceeds in order to bring the debt service down to a supportable level. In effect, then, the Wells Fargo loan serves both as a permanent mortgage and as a bridge loan during the pay-in period for the limited partner contributions. (Limited partner contributions are to be paid in equal installments of $166,000 for eight years.)

- $1,377,690 in HoDAG funds. One half of this amount was a grant. The remainder is a 40-year deferred loan at 3% interest to be amortized between years 20 and 40. (There is no accrual of interest during the first 20 years.)

- $470,181 in zero interest, deferred payment, city loans (due after 30 years) and $135,000 in a zero interest "emergency loan" to be paid back over three years. The emergency loan was used to cover construction costs.

- $226,547 from MHDC. This is a deferred payment loan that accrues interest at 8.39% and is due in 30 years. (However, the initial projections show that it will be repaid by year seven.) The funds originally had been advanced by MHDC to cover early pre-development costs. However, when the project proved unable to reimburse MHDC, a loan structure was adopted.

- $419,000 in city grant funds to acquire the site in 1984.[4]

Total construction sources were $3,853,418, covering both the residential and the commercial units. However, as noted above, construction was financed piecemeal and required the use of

[4] The land was purchased at fair market value in 1984 using grant funds. MHDC is the owner of the land and leases it to the project. Payments on the ground lease are to come from any excess cash generated by the project. Despite this arrangement, we have treated the land as though it were owned by the project partnership and paid for using city grant funds.

a short term swing loan from the city to compensate for late closings on the HoDAG and construction loans.

5. Construction Period

Actual construction of the Maria Alicia Apartments was relatively uneventful. The construction period was 17 months, from March 1988 to August 1989[5]. There were no significant changes, and the fixed price construction contract was completed on time. Total development costs for the housing portion of the project (excluding the value of in-kind contributions) were $4,265,435 or about $213,000 per unit. The apparently high costs of the units is partially explained by their size (most are three or four bedrooms, although their square footage is modest) and by the fact that the project includes 20 below grade parking spaces.

6. Permanent Financing

In addition to the sources described above, Maria Alicia benefits from general and limited partner equity investments which will be paid in over a period of 8 years. These include $13,414 from the managing general partner (Maria Alicia Inc., which is owned by MHDC) and $1,328,000 from Chevron Corporation which is the limited partner. MHDC is also making a loan of $304,000 to cover unpaid development fee. This loan will begin accruing interest in year 9 at an interest rate of 9 percent

The pro forma on the next page shows sources and uses of funds (excluding non cash contributions) for the project. Column A shows sources and uses including both residential and commercial construction. Column B shows uses for the housing portion only. This excludes $212,420 in commercial construction costs and another $159,430 in soft costs related to the commercial portion[6]. The Syndicator's spreadsheet indicates that all of the commercial construction was paid from the Wells Fargo loan. Although specific sources are not identified for commercial soft costs, in this analysis we have assumed that these also have been paid from the Wells Fargo loan.[7] The result is a reduction in the loan amount from $1,225,000 to $853,150, shown in Column B. A corresponding assumption that runs through the analysis is that all of the subsidy associated with below market financing is attributable to the affordable housing component of the project.

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[5] This does not count the "false start" in fall of 1987.

[6] Soft costs attributable to commercial were identified from syndicator's data, and reflect 74% of the relevant line items.

[7] Elements of soft costs are covered from the Wells Fargo loan, the city loans, the HODAG, and the MHDC loan. Costs to be paid from the Wells Fargo loan are sufficient to cover commercial related charges in all cases except architectural, where roughly $20,000 would have to have been paid from other sources

PROFORMA FOR MARIA ALICIA APARTMENTS

I SOURCES	A Housing and Retail	B Housing Only	C Housing Only After Paydown	NOTES AND SUBTOTALS
General Partner Equity	$13,414	$13,414	$13,414	
Limited Partner Equity	$1,328,000	$1,328,000	$1,328,000	
HODAG Grant Portion	$688,845	$688,845	$688,845	
City Land Grant	$419,000	$419,000	$419,000	
City Loan 1	$324,211	$324,211	$324,211	
City Loan 2	$145,970	$145,970	$145,970	
City Loan 3	$135,000	$135,000	$0	Repaid from Synd
HODAG Loan Portion	$688,845	$688,845	$688,845	
MHDC Loan 1 (devel cost)	$226,547	$226,547	$0	Repaid from Synd
MHDC Loan 2 (unpaid fee)	$304,000	$304,000 (1)	$304,000	
Wells Fargo Const/Perm Loan	$1,225,000	$853,150 (2)	$353,150	$500,000 repaid from Synd
TOTAL SOURCES	$5,498,832	$5,126,982	$4,265,435	
II USES				(Subtotals)
1 Project Planning				$131,460
Architecture/Design	$178,614	$131,460	$131,460	
2 Acquisition	$419,000	$419,000	$419,000	$419,000
3 Financing				$224,086
Appraisal/Inspect	$20,011	$14,728	$14,728	
Perm Loan Fee	$24,500	$21,266	$21,266	
Const Loan Interest	$114,000	$83,904	$83,904	
MHDC Loan Interest	$0	$0	$104,188	
4 Relocation	$0	$0	$0	$0
5 Construction				$2,610,020
Construction (housing)	$2,472,920	$2,472,920	$2,472,920	
Construction (commercial)	$212,420	$0	$0	
Permits and Fees	$31,775	$23,386	$23,386	
Contingency	$132,763	$97,714	$97,714	
Personal Property	$20,000	$16,000	$16,000	
6 Taxes/Insurance	$37,174	$27,360	$27,360	$27,360
7 Marketing	$25,000	$25,000	$32,038	$32,038
8 Reserves	$0	$0	$106,000	$106,000
9 Org and Legal				$68,253
Title/recording	$7,000	$5,152	$5,152	
Legal and Audit	$77,664	$63,101	$63,101	
10 Syndication	$0	$0	$147,218	$147,218
11 Overhead	$0	$0	$0	$0
12 Developer Fee	$0	$0	$500,000	$500,000
13 Other	$0	$0	$0	$0
14 Other Items Post Delopment				
Partial Payment of City Loan	$135,000	$135,000	$0	Deducted from City 1
Op Deficit Reserve	$41,000	$41,000	$0	Added to Reserves
Reserve funding fee	$65,000	$65,000	$0	Added to Reserves
Developer Fee	$500,000	$500,000 (1)	$0	Added to Devel Fee
Wells Fargo Mortgage Prepayment	$500,000	$500,000	$0	Deducted from Mortgage
MHDC devel loan repayment	$226,547	$226,547	$0	Deducted from MHDC 1
MHDC loan interest	$104,188	$104,188	$0	Added to Financing
Tax Credit Application	$2,218	$2,218	$0	Added to Syndication
Rent up supervision fee	$7,038	$7,038	$0	Added to Marketing
Gen Part Mgt Fee	$145,000	$145,000	$0	Added to Syndication
TOTAL USES	$5,498,832	$5,126,982	$4,265,435	

(1) **Loan of $304,000 is an offset against unpaid development fee**
(2) ***Assumes commercial cost of $371,850 is paid from the first mortgage***

An important item to note is the treatment of developer's fee, shown as $500,000 in the project pro forma. Since MHDC has provided a loan of $304,000 against this amount, the actual fee to be received by the organization is the difference of $196,000.

Column C of the Exhibit accounts for the fact that a portion of the syndication proceeds (which will be paid in $166,000 installments over eight years) will be used to repay several short term loans and to repay a portion of the Wells Fargo mortgage in order to bring debt service down to a supportable level. These amounts must be excluded in order to avoid double counting resources. As such, the Wells Fargo mortgage is reduced by $500,000 in capital contributions that will be applied to the loan during the first five years of operations. The city loan of $135,000 and the MHDC development loan of $226,547 are also shown as paid (with corresponding deductions in costs). Finally, a variety of cost items have been reallocated to the study cost categories as indicated in the notes to the exhibit.

Final sources of financing for the Maria Alicia project are:

- General and limited partner equity of $13,414 and $1,328,000;
- The HoDAG -- $688,845 as a grant and a like amount as a BMIR loan. (See section 4 for detailed terms.);
- City zero interest, deferred payment loans for $324,211 and $145,970;
- A conventional mortgage from Wells Fargo, amounting to $353,150 after adjusting for commercial construction and accounting for the $500,000 repayment from syndication;
- A $304,000 loan from MHDC to cover unpaid developer's fee; and
- A grant of $419,000 to cover the purchase of the land.

As noted previously, the land for the Maria Alicia project is owned by MHDC rather than the project partnership, and is leased to the project. For the purposes of this analysis, however, we have treated the land as though it were a part of the project financing, paid for from city grant funds.

7. Lease-Up and Occupancy

Marketing for Maria Alicia began several months before construction finished and was completed by a for-profit subsidiary of Mission Housing The building received its certificate of occupancy in August of 1989 and was occupied during the same month. Initial rents and occupancy reflected the requirements of three different program regimes (LIHTC, city, and Section 8) within a 20 unit building. Specifically:

- 16 of the units are governed by LIHTC requirements. These units must be occupied by households with incomes less than 60% of median, with rents set at 30% of income for the appropriate family size.

- 8 units are governed by city rent restrictions. Four of the eight must be occupied by low income households (less than 80% of median) although this restriction is superseded by LIHTC requirements. The remaining four units must be occupied by very low income households (less than 50% of median.) Rents for these units are set at the FMR and are occupied by Section 8 certificate holders

Initial rents at Maria Alicia were as follows:

1BR (1) -- $427
2BR (2) -- $479
3BR (11)-- $565 for LIHTC; $1,009 for Section 8
4BR (6) -- $655 for LIHTC; $1,128 for Section 8

8. On-Going Operations

The Maria Alicia project has been in operation for 33 months. The 1990 financial statement (covering the first full year of operations) shows project expenses (before depreciation) of $261,388 against revenues of $241,006 for a loss of $20,322.

The project is fully occupied. There have been no significant problems, although the differing rental regimes have caused friction among the tenants. MHDC has also experienced some difficulty achieving the expected level of commercial income. One of the ground floor commercial tenants had to be evicted, and renting the commercial space has been more difficult than anticipated.

9. Other Activities by Nonprofit Sponsor

As noted previously, Maria Alicia is managed by a for-profit subsidiary of MHDC. The managing agent supports a full time service coordinator from the budgets of all of its projects. Activities and social services programs are also supported by MHDC and by specific grants. Services at Maria Alicia include a grant-funded reading/after school program. The building also has a 500 square foot community room.

MHDC, the project sponsor, is an active neighborhood development corporation, which pursues a multi-faceted approach to meeting area needs. The Maria Alicia development, in particular, served neighborhood as well as housing goals by removing an eyesore (and a public danger) and by providing additional retail space for neighborhood businesses.

10. Development Costs/Analysis of Data

Exhibit 1 presents information on cash and non-cash resources used in the Maria Alicia project. As indicated in the exhibit, there were no in-kind or pro bono contributions to the project other than the value of financing subsidies and staff costs.[8] MHDC does not use pro bono professional services as a matter of policy, believing that it is in the best interest of the project to contract for services as any private developer would. In addition, MHDC believes that economic development means paying for local services and labor.

Financing subsidies included the value of BMIR or deferred financing during the construction period The amounts shown reflect the amount of interest saved due to the use of BMIR sources In all cases, the construction interest value is calculated based on a 17 month loan at 10 percent simple interest, where the loan is assumed to have been drawn down in equal installments over the period. A one percent financing fee is also added. Staff costs, which were not charged to the project, were based on estimates provided by current and former MHDC staff. Specific development period subsidies included:

- Zero interest city loans amounting to $605,181 ($324,211, plus $145,970, plus $135,000) deferred for 30 years. Construction period interest payments at 10% for 17 months (assuming equal draws) plus one point are added as non-cash resources. Interest associated with the city swing loan is already included in the out of pocket costs.

- HoDAG (loan portion of $688,845). Construction interest plus one point would be $55,681 at 10% (assuming equal draws).

- MHDC loan of $226,547. Interest would be $18,313, plus one point.

- Contributed staff time. The best estimates of current and former MHDC staff suggest that the total time commitment to the project was about 1.4 person years. The cost of a person year was estimated at about $45,000. This works out to about $67,000 in direct cost which was not charged to the project.

- Contributed developer's fee. In this case, we have counted the $304,000 MHDC loan for its unpaid fee as contributed since repayment depends on availability of funds at the dissolution of the partnership.

Exhibit 2 presents summary financial data for Maria Alicia, including various descriptive statistics and data used to compare the 15 case study projects.

As shown, the full project development costs were $222,767 per unit (actual) and $170,604 per unit when adjusted to the 1991 D.C. market and standardized for unit size. As

[8]. The project did receive a 25% density bonus which is available to all affordable housing projects in California. There is no value attached to the density bonus.

noted earlier, the project includes underground parking which contributes $12,000 to $15,000 to the per unit cost.

Average project rents are $667, only 63 percent of the HUD FMR. Note however that four of the 20 units are occupied by Section 8 tenants; contract rents for these units are significantly higher than for the Tax Credit units where rents are based on program affordability standards. Average rents for the project as a whole are 17 percent of the area median and would be affordable (at 30 percent of income) to households at the 57 percent of median level.

The required rent assuming full, market rate financing plus operating expenses would need to be 178 percent higher than the actual rents charged by the project. Also, since the project includes four Section 8 units, the exhibit includes a comparison of required rent with actual rent before any tenant assistance payments. As shown, the project's required rent is 244 percent higher than the affordable rents being charged to current tenants.

The present value of all subsidies (other than rental subsidies) is based on the following:

- Grants of $419,000 for land and $688,845 from the HoDAG.
- $189,912 in non-cash contributions during the development period.
- The difference between the present value of anticipated payments on subsidized loans and the present value of payments on 30-year fully amortizing loans at 10%. The loans include:
  - City loans for $324,000 and $145,970 -- zero interest, due in full in year 30.
  - HoDAG loan of $688,845 -- no payments for 20 years; fully amortized at 3 percent over the following 20 years.[9]

The present value of these subsidies is $2,698,549 or 57 percent of the project's full development cost.

11. Summary and Sponsor Recommendations

The Maria Alicia project is remembered by MHDC staff for its difficulties. Although staff time was covered by CDBG funds, the project suffered from lack of pre-development financing and from late closings, particularly on the HoDAG. MHDC used some of its own funds to cover costs (now converted into a loan) but development funds are always in short

[9] The loan documents indicate amortization over the 20 years. The financial statement states that principal and interest payments of $2,845 per month will begin in year 20 with the remaining unpaid balance to be due in year 40. The latter figures were used in the calculation of present value.

supply In addition, due to the nature of its assets, MHDC cannot borrow for pre-development like a private developer. As a solution, MHDC would like to see public sources provide a portion of the construction loan up front at the time of commitment.

Delays in closing the HoDAG loan were probably the biggest impediment for this project, particularly since the private lender was reluctant to close before the HoDAG closing. The costs of this delay included liquidated damages charged by the contractor after initial ground breaking and interest and closing costs associated with the city swing loan Finally, the project used multiple sources of funds (Tax Credits, HoDAG, city, and private) each with its own set of rules and requirements. According to MHDC staff, dealing with multiple sources and requirements adds both to the development time, and to the overall costs of the project. Increased costs include those associated with staff time, lawyers' fees, and loan closings..

EXHIBIT 1

Sources and Uses of Cash and Non-Cash Resources

Maria Alicia Apartments

I. Sources of Funds	Cash	Non-Cash	Total
1 General Partner Equity	$13,414	$0	$13,414
2 Limited Partner Equity	$1,328,000	$0	$1,328,000
3 City Land Grant	$419,000	$0	$419,000
4 HoDAG (Grant Portion)	$688,845	$0	$688,845
5 City Loan 1	$324,211	$26,207 [1]	$350,418
6 City Loan 2	$145,970	$11,799 [2]	$157,769
7 City Loan 3	$0	$10,913 [3]	$10,913
8 HoDAG (Loan Portion)	$688,845	$55,682 [4]	$744,527
9 Wells Fargo (Permanent)	$353,150	$0	$353,150
10 MHDC 1	$0	$18,313 [5]	$18,313
11 Developer's Fee	$0	$304,000 [6]	$304,000
12 Staff Time	$0	$67,000	$67,000
13			$0
14			$0
15			$0
TOTAL	$3,961,435	$493,913	$4,455,348

II. Uses of Funds	Out-of-Pocket	Non-Cash Contribution	Total
Planning and Design	$131,460	$0	$131,460
Acquisition	$419,000	$0	$419,000
Finance/Carrying Charges	$224,086	$122,913	$346,999
Relocation	$0	$0	$0
Construction	$2,610,020	$0	$2,610,020
Real Estate Taxes	$27,360	$0	$27,360
Marketing	$32,038	$0	$32,038
Reserves	$106,000	$0	$106,000
Legal and Organization (including Development Consultants)	$68,253	$0	$68,253
Developer's Overhead/Staff	$0	$67,000	$67,000
Developer's Fee	$196,000	$304,000 [6]	$500,000
Syndication Costs	$147,218	$0	$147,218
TOTAL	$3,961,435	$493,913	$4,455,348

III. Contributions	Cash	Non-Cash	Total
TOTAL	$1,107,845	$493,913	$1,601,758

Notes
1 324,211*1.0% + 324,211*10.0%*17/12*0.5
2 145,970*1.0% + 145,970*10.0%*17/12*0.5
3 135,000*1.0% + 135,000*10.0%*17/12*0.5
4 688,845*1.0% + 688,845*10.0%*17/12*0.5
5 226,547*1.0% + 226,547*10.0%*17/12*0.5
6 Nominal Expected Rate (8.0%) for Combined Developer's Fee, Overhead, and Staff Costs as a function of Total Development Costs net of these costs is lower and not calculated

[illegible]-Oct-[illegible] 11:[illegible] AM

EXHIBIT 2

Summary of Financial Data Analysis

Maria Alicia Apartments

		%
CASH EQUITY	$2,449,259	55 0%
DEBT FUNDS	$1,512,176	33 9%
NON–CASH RESOURCES	$493,913	11 1%
TOTAL RESOURCES	$4,455,348	100 0%
Percent Public Resources	$2,371,471	53 2%
Percent Private Resources	$2,083,877	46 8%
OUT–OF–POCKET COSTS	$3,961,435	88 9%
VALUE OF SUBSIDIES AND DONATIONS	$493,913	11 1%
FULL COST (Including Subsidies and Donations)	$4,455,348	100 0%

COSTS BY CATEGORY		%
Planning and Design	$131,460	3 0%
Acquisition	$419,000	9 4%
Finance/Carrying Charges	$346,999	7 8%
Relocation	$0	0 0%
Construction	$2,610,020	58 6%
Real Estate Taxes	$27,360	0 6%
Marketing	$32,038	0 7%
Reserves	$106,000	2 4%
Legal and Organization (including Development Consultants)	$68,253	1 5%
Developer's Overhead/Staff	$67,000	1 5%
Developer's Fee	$500,000	11 2%
Syndication Costs	$147,218	3 3%
TOTAL	$4,455,348	100 0%
LAND COST ESTIMATED	$419,000	
TOTAL LESS LAND COSTS	$4,036,348	

	Including Land	Without Land
Normalized Full Cost (Location and Year)	$3,632,410	$3,290,802
Normalized Standard Unit Cost	$170,604	$154,560
Initial Rent	$667	
Initial Rent as a Percent of FMR	63 2%	
Initial Standardized Rent	$627	
Initial Standardized Rent as a Percent of Median Income	17 1%	
Affordability Level	57 0%	
Required Rent if Fully Market–Financed	$1,858	
Percentage Increase Required Over Actual	178 6%	
Percentage Increase Required Over Tenant Payment	244 1%	
Present Value of Subsidies and Donations	$2,698,550	

WORKSHEET

Maria Alicia Apartments

1. Normalized Full Cost	*with land*	*without land*
a Full Cost	$4,455,348	$4,036,348
b Time Factor	1 05	1 05
c Location Factor	0 78	0 78
d a*b*c	$3,632,410	$3,290,802
2 Number of Standard Units		
a Total Square Feet	17,970	
b a/844	21 29	
3 Normalized Standard Unit Cost		
a 1d/2b	$170,604	$154,560
4. InitialRent as a Percent of FMR		
a Initial Rent (wgted by avg unit size)	$667	
b FMR	$1,056	
c a/b	63 2%	
5. Initial Standardized Rent as % of Mean		
a Actual Units	20	
b Actual Units/2b	0 94	
c b*Initial Rent (=Standard Rent)	$627	
d Median Income	$44,000	
e c/(Median Income/12)	17 1%	
6 Affordability Level		
a Initial Standard Rent (5c)	$627	
b (a/ 30)*12	$25,062	
c b/Median Income	57 0%	
7 Required Rent if Financed		
a Full Development Cost	$4,455,348	
b Equity	$1,341,414	
c a−b=principal	$3,113,934	
d Debt Service at Market	$1,366	
e Monthly Operating Cost + Reserve	$492	
f d+e=Required Rent	$1,858	
g Percent Increase Required	178 6%	
h Average Tenant Payment	$540	
i Percent Increase Required	244 1%	
8 PV of Subsidies and Donations		
a Grants and Cash Contributions	$1,107,845	
b Non−Cash Contributions	$493,913	
c Diff of PV of Actual & Market Loan	$1,096,792	
d a+b+c	$2,698,550	

Frank Mar Community Housing
Oakland, California

1. Overview

Frank G. Mar Community Housing is a 119 unit, new construction apartment project located in Oakland's Chinatown neighborhood. The project combines the residential units with 12,000 square feet of street level commercial space and a 311 space underground parking garage. Most of the parking spaces (209) are owned by the city of Oakland, having been purchased from the project developer under a turnkey arrangement. The project has received a variety of awards for its design, including a Fannie Mae Foundation award for innovative approach, a design award from the National Endowment for the Arts, and a 1991 World Habitat Award. The housing portion of the project consists of a 9 story tower for the elderly and small families, surrounded by five two- and three-story, townhouse-like buildings which house larger, family units. The residential portion sits above the street level commercial space and is accessed by a central courtyard. All of the units are affordable: 60 percent must comply with LIHTC rent restrictions, and the remaining 40 percent have HoDAG rents, i.e, rents affordable to households under 50 percent of median.

Planning for the Mar project began in 1983, and the land was acquired in 1984. Construction began in September of 1988 and was completed by July of 1990. However, the closing on the project's HoDAG loan was delayed until January 1992, and as of mid 1992 the syndication had not yet closed.

2. Sponsor and Development Team

The developer of the Frank Mar project is the East Bay Asian Local Development Corporation (EBALDC). EBALDC was incorporated in 1975 to serve the Oakland area's lower income Asian and Pacific Islander population. Historically, EBALDC has focused much of its energy on commercial activities, including the renovation and management of a 73,000 square foot Asian Resource Center in Chinatown which houses 12 nonprofit organizations (including EBALDC) and seven businesses. The center, which was completed in 1981, was EBALDC's only development project prior to starting on Frank Mar. Since that time, however, the organization has completed the 119-unit Mar Project, a 32-unit SRO (the Madrone), the 22-unit Marcus Garvey rental townhouse project, and has over 230 other housing units in process

The Mar project was extremely complex in terms of its ownership and financing. Given EBALDC's lack of previous housing experience it was decided to bring in BRIDGE Housing, one of the Bay Area's most experienced nonprofit housing developers, to assist on the project BRIDGE worked on the Mar project for a portion of the developer's fee, but has no ownership interest. BRIDGE's role was primarily to provide technical assistance during development, and it appears that a good working relationship was achieved. BRIDGE's connections also proved useful in securing a construction loan for the project.

The project is often described as a condominium in that different entities own different portions: EBALDC owns the land and the commercial space; the city owns the parking garage; and the housing portion is owned by a limited partnership which includes Mar Housing (EBALDC) as the general partner, and Mission First Financial (a real estate subsidiary of a Southern California utility) as the limited partner. The architect was a well known San Francisco architect with a reputation for downsized and affordable infill projects; legal and syndication assistance were provided by an experienced real estate law firm and a nonprofit syndicator; the contractor was local. EBALDC staff provided planning, development, financial, and marketing expertise, with assistance from BRIDGE.

3. Pre-development Period

The Frank Mar project had its origins in a 1983 housing study which showed the loss of affordable housing in the area (due in part to freeway and Bay Area Rapid Transit construction) and documented the demand for additional units. Once the decision to move into housing development was made, EBALDC began the process of locating a suitable site, focusing on city-owned land. The first choice was Harrison Park, for which EBALDC completed a feasibility study (using students and volunteer architects) and obtained a 6 month exclusive right to negotiate from the city. The site ultimately fell through, however, due to opposition from environmental groups. A second site (near the lake) also fell through for the same reasons before the city decided to help EBALDC acquire a privately owned site. Approval to acquire the Mar site was obtained in 1984. The city provided $4 million in loans to cover the $2.3 million acquisition cost with the remainder to go towards development.

In planning the project, EBALDC wanted to combine commercial and residential space. As a result, the organization selected an architect with a reputation for mixed use developments. Financing would include private loans, the city loans, a HoDAG loan, a federal grant for the retail portion, and the proceeds from the sale of Tax Credits. The idea of building parking spaces for resale to the city came from BRIDGE. Ultimately, a deal was worked out where EBALDC built the spaces and sold them to the Public Works department for a fixed price of $3.4 million, or about $15,000 per stall. The price included an easement fee of $375,000 which EBALDC then applied to the commercial development.

The Mar project was originally conceived as an 80-unit project. However, receipt of the HoDAG allowed them to add the elderly units, bringing the total to 119. It also received a waiver of residential parking requirements on the 38 elderly units, allowing them to build one space for every four elderly units instead of the normal one-for-one.

4. Construction Financing

Sources of construction financing for the Mar project included the following:

- A construction loan from Wells Fargo bank for $3,350,000. This loan was at prime plus one (8½% with 1 point) and was originally for 18 months. Numerous time extensions were required.

- City loan for land acquisition of $2,500,000. (This was part of an original city loan for $4 million which was subsequently divided into three loans.) The land loan (Agency 1) carries 3 percent simple interest, with all principal and accrued interest due in year 50. Note that the loan is to EBALDC which is the owner of the land and who, in turn, rents it to the project for a nominal ground lease fee. (In this case study, we treat the land as though it were part of the project as opposed to separately held.)

- City loan for $1,250,000 (Agency 2). This loan was originally written at 3 percent (simple interest accruing) with payment deferred for 50 years. (However, the rate was apparently changed to the federal rate to preserve the basis for Tax Credits)

- City loan for $250,000 (Agency 3). This loan originally carried the same terms as Agency 2 but was changed to an unsecured note due at the closing of the syndication.

- A small pre-development loan from the city dating from the acquisition stage which has been accruing interest at 6% and will be paid from syndication proceeds in 1992.

- $1,476,648 in syndication proceeds paid to date.

- HoDAG of $5,523,579. The HoDAG interest rate is the Applicable Federal Rate (8.02%) and the term is 30 years. Payments are deferred for the first 20 years In year 21, payments on principal plus accrued interest are due based on a 30-year amortization schedule. The balance is due in year 30.

Other sources of funding during construction included a $500,000 grant from the Office of Community Services (OCS) in HHS to help cover commercial construction and the $3.4 million fixed price contract with the city for the parking garage.

Also, it is important to note that the closing on the HoDAG loan was severely delayed, requiring the city to provide an interim loan at considerable interest expense to the project. EBALDC's HoDAG application was approved in September 1986. Other construction loans closed in September 1988, but the HoDAG didn't close until January 1992 -- more than a year and a half after construction was completed. As of June 1992, EBALDC was still awaiting final cost certification on the HoDAG so that the syndication could be closed.

The cost of the late HoDAG closing is the difference between the HoDAG payments ($0) and interest on the market rate (9 percent) loan provided by the city. So far, the delay in HoDAG closing will cost the project $1,052,279 in accrued interest.[1]

[1] Interest charges are identified in the 1991 financial statement for the project However, there is no line item in the proforma that appears to correspond to this amount.

5. Construction Period

Construction on the Frank Mar project began in September of 1988 and was completed in July of 1990, for a 22 month construction period The San Francisco earthquake occurred while the project was under construction and resulted in about $10,000 in losses, plus a week's delay. The project also encountered an unexpected groundwater contamination issue (partly the result of stricter post-quake regulations) that caused the permanent lender to delay closing. Ultimately, EBALDC was required to put a total of $216,750 in escrow for toxic testing and remediation. At this point, however, the initial tests are clean, and EBALDC is now expected to be able to recover the funds.

6. Permanent Financing

The pro forma for the Mar project is presented on the next page. The figures in Column A are taken from the syndicator's spreadsheet and show total sources and uses for the residential portion of the project -- including syndication proceeds which will be used to pay down various city loans and the first mortgage. Note also that loan amounts include accrued interest, although several of these loans will not be repaid for 50 years. Repayment of the construction loan (from permanent loan proceeds) is also shown in the pro forma.

The figures in Column A account for funds received and used, but overstate the cost of the project significantly. Columns B and C make a variety of adjustments in order to arrive at unduplicated development costs for the project.

- The predevelopment loan of $35,000 is added to sources. (Column B)
- Accrued interest is excluded from the loan amounts. Accrued interest on short term loans that will be paid from syndication ($21,931 for Agency 3 and $3,492 on the pre-development loan) is included as a financing cost (Column B).
- In Column C, the construction loan and its repayment are deleted from sources and uses to avoid double counting.
- The city loan of $2,500,000 for land has been added (although as noted above the land is held outside of the partnership structure). Land acquisition costs of $2,284,189 have also been added.
- Three loans will be repaid when the syndication closes: Agency 2 for $250,000, the $35,000 pre-development loan and a portion of the city/HoDAG loan ($4,375,431 of $5,523,579). The first two loans are deleted from sources since they will be replaced with the syndication proceeds. The repayment amount of the city/HoDAG loan has been adjusted slightly to permit a balancing of sources and uses. In reality, the exact repayment amount is unknown and will be the residual at syndication closing. Items that could affect the amount of the repayment include final costs (there are still several escrows outstanding) and the amount of the developer's fee which is still to be negotiated.

PROFORMA FOR FRANK MAR COMMUNITY HOUSING

I SOURCES	A Residential Only	B Without Accruals	C Repayments and Adjustments	D Final Sources and Uses	Notes and Subtotals
Construction loan (Wells Fargo)	$3,350,000	$3,350,000	($3,350,000)	$0	Repaid from permanent
Permanent Loan (Citicorp)	$3,035,113	$3,035,113		$3,035,113	Reduced by prepayment
Land Loan (Agency 1)	$0	$0	$2,500,000	$2,500,000	Land loan to EBALDC
Agency Loan 2	$1,322,601	$1,250,000		$1,250,000	
Agency Loan 3	$271,931	$250,000	($250,000)	$0	Repaid from syndication
Predevelopment loan	$0	$35,000	($35,000)	$0	Repaid from syndication
HoDAG	$5,847,390	$5,523,579	($4,375,431)	$1,148,148	Repaid from syndication
General Partner	$965,000	$965,000		$965,000	
Limited Partner	$7,111,466	$7,111,466		$7,111,466	
TOTAL SOURCES	$21,903,501	$21,520,158	($5,510,431)	$16,009,727	

II USES	A	B	C	D	Notes and Subtotals
1 Project Planning					
Architect	$479,656	$479,656		$479,656	$479,656
2 Acquisition	$0	$0	$2,284,189	$2,284,189	$2,284,189
3 Financing					$754,703
Appraisal/Inspect	$2,475	$2,475		$2,475	
Const Loan Fee	$95,770	$95,770		$95,770	
Perm Loan Fee	$151,056	$151,056		$151,056	
Const.Loan Interest	$39,566	$64,989	$440,413	$505,402	
4 Relocation	$0	$0		$0	$0
5 Construction					
Construction	$9,299,788	$9,299,788	$240,400	$9,540,188	$10,016,475
Permits and Fees	$212,807	$212,807		$212,807	
Insurance	$42,812	$42,812	$19,407	$62,219	
Personal Property	$201,261	$201,261		$201,261	
6 Taxes	$165,374	$165,374		$165,374	$165,374
7 Marketing	$48,744	$48,744		$48,744	$48,744
8 Reserves	$54,000	$54,000	$200,000	$254,000	$254,000
9 Org and Legal					$227,415
Title/recording	$40,105	$40,105		$40,105	
Legal and Audit	$187,310	$187,310		$187,310	
10 Syndication			$99,171	$99,171	$99,171
11. Overhead				$0	$0
12 Developer Fee			$1,680,000	$1,680,000	$1,680,000
13 Other					
14 Other Items					
Const. loan repayment	$3,350,000	$3,350,000	($3,350,000)	$0	Loan repaid
HoDAG repayment	$4,457,120	$4,375,431	($4,375,431)	$0	Loan reduced by this amount
Agency loan 2 repayment	$271,931	$250,000	($250,000)	$0	*Loan repaid, interest in financing*
Accrued const. interest	$440,413	$440,413	($440,413)	$0	Reallocated to financing
Negative cash flow	$124,334	$124,334	($124,334)	$0	Deleted from development costs
Ground rent	$19,407	$19,407	($19,407)	$0	Reallocated to construction
Developer Fee	$1,680,000	$1,680,000	($1,680,000)	$0	Reallocated to fee
Op deficit guarantee	$50,000	$50,000	($50,000)	$0	Reallocated to Syndication
Well Monitoring	$240,400	$240,400	($240,400)	$0	Reallocated to construction
Additional reserves	$200,000	$200,000	($200,000)	$0	Reallocated to Reserves
Syndication Costs	$25,000	$25,000	($25,000)	$0	Reallocated to Syndication
Tax Credit Application	$24,171	$24,171	($24,171)	$0	Reallocated to Syndication
Pre-devel.loan & interest	$0	$35,000	($35,000)	$0	Loan repaid, interest in financing
TOTAL USES	$21,903,500	$21,860,303	($5,850,576)	$16,009,727	

- Various line items have been reallocated to the proper study categories per the notes.

Turning to Column D (Adjusted Sources and Uses), total out of pocket development costs for the residential portion of the Mar project are just over $16 million or about $135,000 per unit. A partial explanation for the cost is the fact that the project includes 95 underground parking spaces (serving the residential portion) which add $12,000 to $15,000 per unit.

Syndication proceeds for the project total $7,111,466 from the limited partner, with a $965,000 investment from the general partner. As of June 1992, $1,476,000 in limited partner contributions had been received, with the balance to be due upon the closing of the syndication. As of June 1992, the syndication had still not closed, but is expected to take place by the end of the year. (The hold up on closing appears to be the result of slow processing of the HoDAG cost certification which is needed before final costs can be determined)

Most of the loans identified under construction financing carried over to permanent. These included the various city loans and the HoDAG (which in fact serves as a take out for the interim construction loan provided by the city.) The Wells Fargo construction loan was also replaced by a permanent loan from Citibank. The Citibank loan documents show the same principal amount as the construction loan ($3,350,000), but in order to meet the bank's debt service ratio of 1.1, the project will be required to repay Citibank $314,887 in principal from syndication proceeds in 1992. The loan amount in the exhibit ($3,035,113) has already been reduced by this amount.[2]

It is also important to note that the Citibank loan carries an interest subsidy provided through the Federal Home Loan Bank's affordable housing program. Under this program, the initial interest rate (10.47) is written down to 8.62 through a $416,500 grant. The loan is for 30 years with an adjustable rate after the first 10 years.

As shown in the exhibit, the project will receive a substantial infusion of equity funds once the syndication closes. Limited partner contributions total $7,111,466, of which only $1,476,648 has been received so far. The syndication funds will be used to cover syndication costs, various other expenses, developer's fee, the Citibank repayment, and to repay over $4.5 million in city loans. It is important to note that all of these numbers are approximate pending the final closing. The exact amount of city repayment will depend on what is available after costs and developer's fee. The fee itself is negotiable. Despite nearly $1.7 million shown in the exhibit, the actual fee to be retained by EBALDC is expected to be closer to $400,000 to $500,000, of which $200,000 is to be paid to BRIDGE.

[2] According to slightly later documents (the 1991 financial statement) the repayment will be $346,902 This includes $327,846 in principal and $18,932 in prepayment penalties accruing to the Federal Home Loan Bank

7. Lease-up and Occupancy

The Frank Mar project is currently managed in-house by EBALDC. For the first year of operation, however, the project was managed by a more experienced housing management group, the Ecumenical Association for Housing, as a requirement of the first mortgage EBALDC participated in the initial marketing and rent up.

Marketing for the project began in March of 1990. EBALDC eventually received over 2,000 eligible applications for the 119 spaces. At the end of May 1990 a lottery was held to select the initial families. Move-ins began in July 1990, and the building was fully occupied by September 1990.

Rents reflect Tax Credit rules for 60 percent of the units (i.e., rents must be set at 30 percent of 60 percent of median income for the appropriate household size). For the remainder of the units, HoDAG/regulatory agreement rules apply, i.e., rents must be set at 30 percent of 50 percent of area median. Unit types, sizes and rents are shown below:

	LIHTC		*HoDAG*		*TOTAL*
	Units	Rent	Units	Rents	
1 Bedroom	51	$405	0	NA	51
2 Bedroom	15	$516	20	$393	35
3 Bedroom	5	$559	22	$452	27
4 Bedroom	0	NA	6	$518	6
TOTAL	71		48		119

8. On-going Operations

Frank Mar is fully occupied. The property has been in operation for nearly two years. The financial statement for 1991, the first full year of operation shows income of $665,000 against expenses of $1,233,766, for a significant deficit. However, this includes various accrued and deferred costs. The project is intended to be self-supporting other than deferral of debt service.

The occupancy of Frank Mar is roughly 85 percent Chinese speaking One of the difficulties in managing the project has been finding a bi-lingual site manager There is also some concern about crime in the area EBALDC has been paying for additional security personnel from its commercial revenues.

9. Other Activities by Nonprofit Sponsor

Frank Mar does not currently provide any on-site social services to residents. However, EBALDC pursues a coordinated program of economic and commercial development which benefits the neighborhood as a whole Also, construction presently is underway to locate a day care center in one of the commercial spaces at Frank Mar. The center will be run by Head Start and Parent/Child Development. Day care is considered to be an important service for residents, and EBALDC will subsidize the center by charging a below market rent

10. Development Cost/Analysis of Data

Exhibit 1 presents Cash and Non-Cash resources used in the Frank Mar project. The project contains no development period contributions other than financing subsidies and staff time [3] In general, EBALDC believes that it is best to pay for professional services as a private developer would The city, for its part, prefers not to waive fees, thus reducing revenue, but rather to cover costs out of loans.

Loan subsidies received by Frank Mar during the 22 month construction period a from the following sources:

- Land loan (Agency 1) at $2,500,000. This is a deferred payment loan that accrues interest at 3 percent and is due in full after 50 years.
- Development loan (Agency 2) for $1,250,000. This loan accrues interest at 3 percent and is due in 50 years.
- Agency loan 3 for $250,000 on the same terms as Agency 2 but changed to an unsecured note due at the time of the syndication closing
- A $35,000 pre-development loan from the city which has been accruing interest at 6 percent for the last two years (May 1990-June 1992) and will be due at the syndication closing.

For the first three loans, the value of the subsidy is the difference between zero payments actually made and a 22-month market rate construction loan at 7 percent simple interest. (The rate of 7 percent is used to reflect the difference between a market rate of 10 percent and the 3 percent accrual on the loan.) We also add a one percent loan fee in each case. This amount is then adjusted by 50 percent for the two construction loans to reflect an assumed schedule of equal drawdowns over the term. (The land loan is assumed to have been drawn down in one installment.) The value of the $35,000 pre-development loan (which has been accruing interest

[3] The density bonus of 25% is available to all affordable projects and is not explicitly valued. The parking waiver was also available city-wide (prior to the 1988 Fair Housing Act)

at 6 percent) is based on a 4 percent rate differential and a 7 year term No adjustment for drawdown schedule is made, given the length of the loan. A one percent fee is also added. All other loans -- the Wells Fargo construction loan and the interim city loan (which replaced the HoDAG during construction) -- were at market rates.

Staff costs for the Mar Project were estimated at about $360,000. This was based on a total of six person years of effort (over an elapsed period of seven years) at a value of $60,000 per year. These are shown as a non cash contribution under sources and as a use under overhead/staff. Finally, Exhibit 1 includes a provision for "contributed fee" based on the difference between actual fee and a benchmark fee of 6 percent. The contributed fee amount is reduced by the staff time estimates so that the six percent is assumed to reimburse the nonprofit for staff costs as well as to generate profits for future development.

Exhibit 2 presents summary financial data for Frank Mar, including various descriptive statistics and data used to compare the 15 case study projects.

As shown, total costs are $16.8 million or about $141,000 per unit. Part of this cost is attributable to underground residential parking at about $15,000 per unit. When adjusted to 1991 D.C prices, costs are $13 million or about $112,000 per unit. The normalized cost of a standard 844 square foot unit (in D.C., 1991) is somewhat higher ($153,000), however, due to the small size of the units. Initial affordable rents average $439 and are only 47 percent of the area FMR. Rents average only 16 percent of median income and, at 30 percent of income, are affordable to households between at 52 percent of median. Were the project to pay full debt service on all of its loans (and the value of construction interest subsidies), rents would have to be 93 percent higher to breakeven.

The present value of subsidies over the life of the project is calculated as the sum of the following:

- Non-cash contributions during development (Exhibit 1)
- Financing subsidy associated with the FHLB interest rate writedown of $416,500 on the Citibank loan.
- HoDAG subsidy equals the difference between the present value of projected actual payments and the present value of payments on a 30-year loan at 10 percent.
- City loan subsidies equal to the difference between the present value of assumed payments on the long term loans ($2,500,000 and $1,250,000) and the present value of payments on a 30 year loan at 10 percent interest.

11. Summary and Sponsor Recommendations

The lateness of the HoDAG closing was the principal problem experienced by EBALDC in completing the Frank Mar development. While the HoDAG was originally to be used for

construction, delays resulted in the need for a bridge loan from the city resulting in over $1 million in additional interest costs. As of June 1992, final certification on the HoDAG had still not been received, continuing to hold up closing on the syndication.

The complexity of the project is also a problem. As the syndicator for the development observed: the project won an award for its design, not its financing. The large number of sources involved was made more complex by the fact that each source wants to leverage other money and each wants to be the last money into the deal. Fulfilling the requirements of multiple sources also takes time, and EBALDC is concerned that the delay may make the organization look bad to the investor, who, as of this writing, is still waiting to close.

EXHIBIT 1

Sources and Uses of Cash and Non-Cash Resources

Frank Mar Community Housing

I. Sources of Funds	Cash	Non-Cash	Total
1 General Partner Equity	$965,000	$0	$965,000
2 Limited Partner Equity	$7,111,466	$0	$7,111,466
3 Citicorp (Permanent Loan)	$3,035,113	$0	$3,035,113
4 HoDAG (after repayment)	$1,148,148	$0	$1,148,148
5 City Land Loan 1	$2,500,000	$345,833 [1]	$2,845,833
6 City Loan 2	$1,250,000	$92,708 [2]	$1,342,708
7 Agency 3	$0	$18,542 [3]	$18,542
8 Predevelopment	$0	$3,150 [4]	$3,150
9 Staff Cost	$0	$360,000	$360,000
10			$0
11			$0
12			$0
13			$0
14			$0
15			$0
TOTAL	$16,009,727	$820,233	$16,829,960

II. Uses of Funds	Out-of-Pocket	Non-Cash Contribution	Total
Planning and Design	$479,656	$0	$479,656
Acquisition	$2,284,189	$0	$2,284,189
Finance/Carrying Charges	$754,703	$460,233	$1,214,936
Relocation	$0	$0	$0
Construction	$10,016,475	$0	$10,016,475
Real Estate Taxes	$165,374	$0	$165,374
Marketing	$48,744	$0	$48,744
Reserves	$254,000	$0	$254,000
Legal and Organization (including Development Consultants)	$227,415	$0	$227,415
Developer's Overhead/Staff	$0	$360,000	$360,000
Developer's Fee	$1,680,000 [5]	$0	$1,680,000
Syndication Costs	$99,171	$0	$99,171
TOTAL	$16,009,727	$820,233	$16,829,960

III Contributions	Cash	Non-Cash	Total
TOTAL	$0	$820,233	$820,233

Notes
1. 2,500,000*1 0% + 2,500,000*7 0%*22/12
2. 1,250,000*1 0% + 1,250,000*7 0%*22/12*0 5
3. 250,000*1 0% + 250,000*7 0%*22/12*0 5
4. 35,000*1 0% + 35,000*0 04*2
5. The amount of fee to be retained by EBALDC will be negotiated It is expected to be in the $400-500K range of which $200K will go to BRIDGE

EXHIBIT 2

Summary of Financial Data Analysis

Frank Mar Community Housing

		%
CASH EQUITY	$8,076,466	48 0%
DEBT FUNDS	$7,933,261	47 1%
NON–CASH RESOURCES	$820,233	4 9%
TOTAL RESOURCES	$16,829,960	100 0%
Percent Public Resources	$5,358,381	31 8%
Percent Private Resources	$11,471,579	68 2%
OUT–OF–POCKET COSTS	$16,009,727	95 1%
VALUE OF SUBSIDIES AND DONATIONS	$820,233	4 9%
FULL COST (Including Subsidies and Donations)	$16,829,960	100 0%

COSTS BY CATEGORY		%
Planning and Design	$479,656	2 9%
Acquisition	$2,284,189	13 6%
Finance/Carrying Charges	$1,214,936	7 2%
Relocation	$0	0 0%
Construction	$10,016,475	59 5%
Real Estate Taxes	$165,374	1 0%
Marketing	$48,744	0 3%
Reserves	$254,000	1 5%
Legal and Organization (including Development Consultants)	$227,415	1 4%
Developer's Overhead/Staff	$360,000	2 1%
Developer's Fee	$1,680,000	10 0%
Syndication Costs	$99,171	0 6%
TOTAL	$16,829,960	100 0%
LAND COST ESTIMATED	$419,000	
TOTAL LESS LAND COSTS	$16,410,960	

	Including Land	Without Land
Normalized Full Cost (Location and Year)	$13,386,980	$13,053,696
Normalized Standard Unit Cost	$152,953	$149,145
Initial Rent	$439	
Initial Rent as a Percent of FMR	47 4%	
Initial Standardized Rent	$597	
Initial Standardized Rent as a Percent of Median Income	15 7%	
Affordability Level	52 4%	
Required Rent if Fully Market–Financed	$845	
Percentage Increase Required Over Actual	92 4%	
Percentage Increase Required Over Tenant Payment	92 4%	
Present Value of Subsidies and Donations	$5,419,385	

WORKSHEET

Frank Mar Community Housing

1. Normalized Full Cost	*with land*	*without land*
a Full Cost	$16,829,960	$16,410,960
b Time Factor	1 02	1 02
c Location Factor	0 78	0 78
d a*b*c	$13,386,980	$13,053,696
2. Number of Standard Units		
a Total Square Feet	73,870	
b a/844	87 52	
3 Normalized Standard Unit Cost		
a 1d/2b	$152,953	$149,145
4. InitialRent as a Percent of FMR		
a Initial Rent (wgted by avg unit size)	$439	
b FMR	$927	
c a/b	47 4%	
5. Initial Standardized Rent as % of Mean		
a Actual Units	119	
b Actual Units/2b	1 36	
c b*Initial Rent (=Standard Rent)	$597	
d Median Income	$45,600	
e c/(Median Income/12)	15 7%	
6. Affordability Level		
a Initial Standard Rent (5c)	$597	
b (a/ 30)*12	$23,875	
c b/Median Income	52 4%	
7. Required Rent if Financed		
a Full Development Cost	$16,829,960	
b Equity	$8,076,466	
c a-b=principal	$8,753,494	
d Debt Service at Market	$646	
Monthly Operating Cost + Reserve	$199	
f d+e=Required Rent	$845	
g Percent Increase Required	92 4%	
h Average Tenant Payment	$439	
i Percent Increase Required	92 4%	
8. PV of Subsidies and Donations		
a Grants and Cash Contributions	$0	
b Non-Cash Contributions	$820,233	
c Diff of PV of Actual & Market Loan	$4,599,151	
d a+b+c	$5,419,385	

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