

Ann Sewill, General Manager  
Tricia Keane, Executive Officer

Daniel Huynh, Assistant General Manager  
Anna E. Ortega, Assistant General Manager  
Luz C. Santiago, Assistant General Manager

**City of Los Angeles**



LOS ANGELES HOUSING DEPARTMENT  
1200 West 7th Street, 9th Floor  
Los Angeles, CA 90017  
Tel: 213.808.8808  
[housing.lacity.org](http://housing.lacity.org)

**Karen Bass, Mayor**

January 17, 2024

Los Angeles City Council  
City of Los Angeles, c/o the City Clerk  
Room 395, City Hall  
200 N. Spring Street  
Los Angeles, CA 90012

Attn: Mandy Morales, Legislative Analyst

**CORRECTION TO COUNCIL FILE NO. 23-0206**

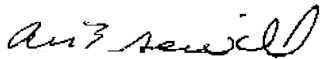
The Los Angeles Housing Department (LAHD) respectfully requests to update the LAHD report for Council File No. 23-0206 due to the following changes:

- In the Summary, the Fast Track loan balance amount decreased from \$8,617,747 to \$8,617,738;
- Recommendation II. A changed from “AUTHORIZE the General Manager of LAHD, or designee, to reserve \$19,011,308 in HOME funding, \$4,907,109 in SB2 funding, and \$971,331 in Linkage Fee as identified in Table 1.” to “AUTHORIZE the General Manager of LAHD, or designee, to additionally reserve \$15,949,787 in HOME funding, \$117,793 in Linkage Fee, and \$204,430 in SB2 funding, and as identified in Table 1.”;
- Table 1 was replaced to incorporate these changes:
  - Removing Isla De Los Angeles from the HOME projects, including the request of \$1,157,878;
  - Reducing the 803 E. 5th Street HOME amount from \$7,125,000 to \$5,991,969;
  - Adding Firmin Court to the HOME projects with a request of \$910,107;
  - Reducing the total HOME amount from \$19,011,308 to \$17,630,506;
  - Increasing the Senate Bill 2 requested amount for Isla De Los Angeles from \$1,592,122 to \$2,750,000;
  - Removing Firmin Court from the Senate Bill 2 projects, including the request of \$910,107;
  - Adding 803 E. 5th Street to the Senate Bill 2 projects with a request of \$1,133,031;
  - Increasing the Senate Bill Sub-Total from \$4,907,109 to \$6,287,911
  - Adding a Remaining Fast Track total line item for each source (HOME, Linkage Fee and SB2)

- Adding an Additional Reservation Request total line item for each Source (HOME, Linkage Fee and Senate Bill 2)
- Adding a Fast Track Balance line item of \$8,617,738; and
- Adding a Total Additional Reservation Request line item of \$16,272,010.
- Table 2 was replaced to make the following changes:
  - The subject header of the second column from “Total Fast Track Expended To Date” to “Total Fast Track Awarded/Expended as of Dec 18, 2023”;
  - The total Fast Track Expended/Awarded was changed from \$19,782,253 to \$19,782,262
  - The Fast Track Balance was changed from \$8,617,747 to \$8,617,738
  - The New Funds Requested was changed from \$16,272,001 to \$16,272,010; and
- Table 3 was corrected from reading “TABLE 2” to “TABLE 3”

The new version will replace the original report, which is currently scheduled for the Housing and Homelessness Committee Meeting.

Sincerely,



Ann Sewill  
General Manager

Ann Sewill, General Manager  
Tricia Keane, Executive Officer

Daniel Huynh, Assistant General Manager  
Anna E. Ortega, Assistant General Manager  
Luz C. Santiago, Assistant General Manager

## City of Los Angeles



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**Karen Bass, Mayor**

January 16, 2023

**FINAL VERSION**

Council File: 23-0206  
Council Districts: Citywide  
Contact Persons: Daniel Huynh: (213) 808-8901  
Elizabeth Selby: (213) 256-2336

Honorable Karen Bass  
Mayor, City of Los Angeles  
Room 303, City Hall  
200 N. Spring Street  
Los Angeles, CA 90012

Attention: Heleen Ramirez, Legislative Coordinator

### **COUNCIL TRANSMITTAL: LOS ANGELES HOUSING DEPARTMENT REPORT AND RECOMMENDATIONS FOR THE FAST TRACK LOAN PROGRAM**

#### **SUMMARY**

This transmittal provides an update on the status of the Fast Track Loan Program (C.F. No. 23-0206), which was approved on March 15, 2023. Since the inception of the Fast Track Loan Program, the Los Angeles Housing Department (LAHD) and the Administrative Oversight Committee for Fast Track approved loans to 8 projects with 670 units, totaling \$19,782,262 of the approved \$28,400,000. Currently, the Fast Track Loan Program has a balance of \$8,617,738, and eleven eligible applicants in need of funding to start or complete another 732 units of supportive housing for people experiencing homelessness. This report recommends supplementing the original Fast Track program allocation, and approval of the 11 additional projects that have been reviewed and underwritten. Taking all 11 projects directly to Council is the most expeditious way help complete these projects that did not meet the full requirements of the Fast Track Loan Program so that they are ready for occupants. Council approval of project funding through this transmittal will, in effect, replace the Administrative Oversight Committee's original authority granted through C.F. No. 23-0206.

With Mayoral and Council approval of the Recommendations below, the Fast Track Program coupled with the additional obligated funds will expedite the development of 1,402 units of Permanent Supportive Housing.

#### **RECOMMENDATIONS**

- I. That the Mayor review this transmittal and forward to the City Council for further action;
- II. That the City Council, subject to the approval of the Mayor:

- A. AUTHORIZE the General Manager of LAHD, or designee, to additionally reserve \$15,949,787 in HOME funding, \$117,793 in Linkage Fee, and \$204,430 in SB2 funding, as identified in Table 1.
- B. AUTHORIZE, the General Manager of LAHD, or designee, to issue a funding recommendation letter for each project requesting funds as identified in Table 1 of this report, subject to the following conditions:
- The final funding commitment will not exceed the amount listed;
  - Waive the maximum loan limit for 803 E. 5th Street, Firmin Court, Isla de Los Angeles, Marcella Gardens, Ruth Teague Homes, and Western Ave Apartments and waive the Application Submittal date requirement for Bryson II Apartments.
  - The disbursement of LAHD funds will occur only after the sponsor obtains enforceable commitments for all proposed funding;
- C. AUTHORIZE the General Manager of LAHD, or designee, subject to review and approval of the City Attorney as to form, to negotiate and execute loan agreements with the legal owner of each applicable project identified in Table 1, which receive awards from the proposed leveraging sources, subject to the satisfaction of all conditions and criteria contained in the LAHD Pipeline application, this transmittal, and the LAHD Award Letter (if applicable), with the condition that Friendship for Affordable Housing, LLC ("FFAH") becomes the sole member of Administrative General Partner of West Third Apartments GP, LLC, Western Avenue Apartments Preservation, LP and Broadway Apartments Preservation, LP to effectuate the sale of membership interest of Shangri-La Construction, L.P. ("SLC"), and AW Investment Holdings, LLC ("AWIH").
- D. AUTHORIZE the General Manager of LAHD, or designee, to execute subordination agreements of the City's financial commitment, wherein the City Loan and Regulatory Agreements are subordinated to their respective conventional or municipally funded construction and permanent loans, as required;
- E. AUTHORIZE the General Manager of LAHD, or designee, to allow the transfer of the City's financial commitment to a limited partnership or other legal entity formed solely for the purpose of owning and operating the project in accordance with City and Federal requirements;
- F. AUTHORIZE the City Controller to:
- Obligate funds for the projects listed below:

TABLE 1 – Funding Recommendations: Fast Track & Gap Financing			
HOME			
Project Name	Fund Name/ No	Appr Acct/Name	Amount
Marcella Gardens	HOME/561	43Y800/AHMP	\$1,628,430
803 E. 5th Street	HOME/561	43Y800/AHMP	\$5,991,969
Southside Seniors	HOME/561	43W800/AHMP	\$2,300,000
Bryson II	HOME/561	43Y800/AHMP	\$1,900,000
Palm Vista Apartments	HOME/561	43Y800/AHMP	\$1,400,000
Ruth Teague Homes	HOME/562	43Y800/AHMP	\$2,720,000
Firmin Court	HOME/563	43Y800/AHMP	\$910,107
Western Avenue Apartments	HOME/561	43Y800/AHMP	\$780,000
<b>Sub-Total</b>			<b>\$17,630,506</b>

<b>Remaining Fast Track</b>			<b>\$1,680,719</b>
<b>Additional Reservation Request</b>			<b>\$15,949,787</b>
<b>Linkage Fee</b>			
Western Ave Apartments	Linkage Fee/59T	43S723/R New Construction	\$24,761
Marcella Gardens	Linkage Fee/59T	43W723/R New Construction	\$946,570
<b>Sub-Total</b>			<b>\$971,331</b>
<b>Remaining Fast Track</b>			<b>\$853,538</b>
<b>Additional Reservation Request</b>			<b>\$117,793</b>
<b>Senate Bill 2</b>			
Isla De Los Angeles	Senate Bill 2/64R	43W723/ R New Construction	\$2,750,000
Broadway Apartments	Senate Bill 2/64R	43W723/ R New Construction	\$1,040,664
West Third	Senate Bill 2/64R	43W723/ R New Construction	\$1,364,216
803 E. 5th Street	Senate Bill 2/64R	43W723/ R New Construction	\$1,133,031
<b>Sub-Total</b>			<b>\$6,287,911</b>
<b>Remaining Fast Track</b>			<b>\$6,083,481</b>
<b>Additional Reservation Request</b>			<b>\$204,430</b>
<b>TOTAL</b>			<b>\$24,889,748</b>
<b>Fast Track Balance</b>			<b>\$8,617,738</b>
<b>Total Additional Reservation Request</b>			<b>\$16,272,010</b>

- G. AUTHORIZE the General Manager of LAHD, or designee, to prepare the Controller instructions and any necessary technical adjustments consistent with Mayor and City Council actions, subject to the approval of the City Administrative Officer (CAO), and instruct the Controller to implement the instructions
- H. AUTHORIZE LAHD to defer project accrued construction loan interest for projects already admitted into HHH or the Affordable Housing Managed Pipeline.

### **BACKGROUND**

On March 15, 2023, the City Council and Mayor approved the Fast Track Loan Program (C.F. No. 23-0206) as proposed by LAHD in order to close the financial gaps on critical affordable and supportive housing projects so as to expedite the development of more affordable housing units. This program appropriated \$853,538 of Linkage Fee funds, \$17,065,432 of HUD HOME funds, and \$10,481,030 in Senate Bill 2 new construction funds to total \$28,400,000. Table 2, below, summarizes the funding associated with this transmittal. The far-left column “Original Fast Track Commitment” shows the initial fast track commitment approved via CF 23-0206. “Total Fast Track Expended To Date” shows the total loan amount approved by the, now dormant, Fast Track Administrative Oversight Committee. “Fast Track Balance” shows the amount still available from the initial Fast Track set aside. The final column labeled “New Funds Requested” quantifies the amount of additional funds outside the Fast Track program requested by LAHD for gap financing of projects which applied to the original Fast Track program.

Table 2-Total Gap Financing			
Original Fast Track Commitment	Total Fast Track Awarded/Expended as of Dec 18,2023	Fast Track Balance	New Funds Requested
\$28,400,000	\$19,782,262	\$8,617,738	\$16,272,010

LAHD proposed the Fast Track Program due to unprecedented increases in interest rates, insurance costs and the cost of building materials. In addition, it was noted that LAHD would lose significant amounts of previously loaned City funds if these types of projects did not receive the funding needed to complete or convert.

LAHD opened the Fast Track Loan Program application on March 14, 2023 and closed the application window on May 12, 2023. Since the opening of the program, LAHD received a total of 25 project applications, with a request totaling \$64,563,683. Of those 25 projects, 8 projects were awarded funding but based on the number of applications, it is clear that there is a broader need for gap financing across many projects at this time.

As mentioned above, the interest rates have nearly doubled since these projects began financing. Market conditions such as increased materials costs and supply chain interruptions have created gaps in these projects. In order to further the Inside Safe initiative, and bring as many units online as possible this year, it is necessary to close these gaps. This transmittal will describe additional tranches of proposed gap financing for projects in construction or in the process of permanent conversion.

One additional source will be the ULA Accelerator Plus Program (C.F. No. 23-0038). The \$56,800,000 has been made available via a Notice of Funding Availability with applications due December 15, 2023. The projects listed within this transmittal are not eligible for those funds as they do not meet the requirements of Measure ULA.

Lastly, Western Avenue Apartments, West Third Apartments and Broadway apartments are each partially owned by Shangri-La Construction, L.P. ("SLC"), AW Investment Holdings, LLC ("AWIH") and Friendship for Affordable Housing, LLC ("FFAH"). FFAH plans to acquire SLC and AWIH's portion of the project. LAHD recommends providing supplemental loans contingent upon this change in ownership, per Recommendation C. II. For more detail, please refer to the Staff Reports.

#### Market Conditions and Fast Track Lessons Learned

While the Affordable Housing Managed Pipeline (C.F. No. 22-0876) provides a competitive process for supportive and affordable housing projects to apply for funding, no such permanent program exists to provide gap financing that would be objectively awarded to projects in need. Throughout COVID and continuing through today, there has been an emerging need for flexible funding to close financing gaps as a means to get affordable housing projects to completion and bring on more units quickly. Both through the Fast Track Administrative Oversight Committee and LAHD underwriting and review, sponsors consistently demonstrated the need for additional funding. Increased materials costs, increased construction interest and increased insurance costs consistent across City-funded projects reflects the time and place of the market and not of LAHD's underwriting standards.

The astronomically high interest rates were dramatically higher than forecasted rates. In addition, the supply chain interruptions led to material cost increases during COVID that created project delays and increased costs overall. These unpredictable factors created a massive need on the back end, and even with non-City funding sources, Developers still required additional funding to complete their projects. It is valuable to reflect and reconsider City underwriting standards, however, the repeated gap financing needs across projects, demonstrates that these developers faced an extraordinary set of market driven circumstances. These challenges are not unique to Los Angeles. Since 2022, mortgage interest rates have skyrocketed across the nation, for example, 30-year fixed mortgage interest rates have gone from below 4% to above 7%.

As a result of the national market conditions, LAHD staff has advocated for greater contingencies in development budgets, likewise, developers have been utilizing rate locks and other hedges to mitigate interest rate risk. Providing a greater contingency allows developers to have enough capacity to respond to changes in the market, and will not require additional funding.

#### Fast Track Program Remaining Balance and Additional Gap Financing

Eight projects totaling 628 units across the City applied for Fast Track funding through the first iteration but did not qualify under the program requirements. These eight projects, however, still require gap financing in order to either finish construction or convert to permanent financing. Without gap financing for construction, new tenants (those awaiting a PSH unit through Inside Safe, in some cases) cannot occupy the rooms, since the building will not be complete without the additional monies. And, without permanent financing, existing tenants risk eviction, because the building risks default without the ability to pay off the construction loan. The eight projects in need of gap financing all met the following criteria as outlined in C.F. No. 23-0206 which included the following requirements:

1. City Council approved LAHD funding commitments from programs including HHH, Affordable Housing Managed Pipeline, Affordable Housing & Sustainable Communities Loans, Tax Exempt Bonds; as well as all required leveraging sources, including but not limited to allocations from the California Tax Credit Allocation Committee, California Debt Limit Allocation Committee, California Department of Housing & Community Development (HCD) such as Affordable Housing and Sustainable Communities (AHSC), Los Angeles County Development Authority, or Federal Home Loan Bank;
2. Exhausted all reasonable funding options, including a 50% developer fee deferral;
3. Demonstrate that construction loans can be closed or construction completed by applicable readiness or placed-in-service deadlines.

The original Fast Track program also required that outstanding loans may not have converted to permanent financing and capped the loan limit at \$140,000 per unit. LAHD has exhausted all opportunities to utilize the balance of the Fast Track funds under its original parameters. So, the projects in the following table did not meet one of those criteria under the original program. Because these projects are either already in service or have the fastest approaching “ready for occupancy” deadline, LAHD recommends funding the remaining projects (detailed in Table 1) with the balance of Fast Track program funds already appropriated by Council.

Total Fast Track program applicant requests exceeded the balance of the Fast Track Program funds. Thus, LAHD, recommends that it make available Linkage Fee (Rental New Construction allocation), HOME and SB2 funds to

cover the remaining projects (detailed in Table 3, below) with the goal of moving qualified tenants into units as quickly as possible whether from shelter, interim housing or street homelessness.

<b>TABLE 3 – Funding Recommendations: Fast Track &amp; Gap Financing</b>					
<b>Project Name</b>	<b>Development Stage</b>	<b>Council District</b>	<b>Fast Track Criteria Met/Missing</b>	<b>Number of Units</b>	<b>Requested Loan Amount</b>
803 E. 5th Street	In Construction	14	All met but exceeded loan limit	95	\$7,125,000
Broadway Apartments	Perm Conversion	9	All met but did not exhaust potential outside resources	34	\$1,040,664
Bryson II	In Construction	1	All met but missed due date	64	\$1,900,000
Firmin Court	Perm Conversion	1	All met but exceeded loan limit	64	\$910,107
Isla de Los Angeles	In Construction	8	All met but exceeded loan limit	54	\$2,750,000
Marcella Gardens	In Construction	9	All met but exceeded loan limit	60	\$2,575,000
Palm Vista Apartments	In Construction	3	All met but did not exhaust potential outside resources	91	\$1,400,000
Ruth Teague Homes	Perm Conversion	9	All met but exceeded loan limit	52	\$2,720,000
Southside Seniors	In Construction	8	All met but did not exhaust potential outside resources	50	\$2,300,000
West Third	Perm Conversion	1	All met but did not exhaust potential outside resources	136	\$1,364,216
Western Ave Apartments	Perm Conversion	8	All met but exceeded loan limit	32	\$804,761
<b>TOTAL</b>				<b>732</b>	<b>\$24,889,748</b>

### Project Selection Criteria

Projects selected as recipients of the Fast Track funds had to meet the following criteria:

1. City Council approved LAHD funding commitments from programs including HHH, Affordable Housing Managed Pipeline, Affordable Housing & Sustainable Communities Loans, Tax Exempt Bonds;
2. Secured all required leveraging sources, including but not limited to allocations from the California Tax Credit Allocation Committee, California Debt Limit Allocation Committee, California Department of Housing & Community Development (HCD) such as Affordable Housing and Sustainable Communities (AHSC), Los Angeles County Development Authority, or Federal Home Loan Bank;
3. Loans not yet converted to permanent financing;
4. Exhausted all available funding options, including a 50% developer fee deferral;
5. Demonstrate that construction loans can be closed or construction completed by applicable readiness or placed-in-service deadlines.

LAHD staff reviewed and carefully considered each project for approval. SEE ATTACHMENT for individual staff reports.



### Deferred Interest

As referenced in Recommendation H, LAHD recommends deferring construction loan interest that have been accrued for projects in the Affordable Housing Managed Pipeline or those with HHH funding to address funding gaps. The ability to defer interest is the most cost-effective way to provide immediate relief to struggling projects while still mitigating negative impacts to the LAHD's budget. In order to limit the need for new City funds, the amount of LAHD accrued construction period interest payable at permanent loan conversion should be deferred and added to the loan balance. Loan terms would be the same as the previously approved loan if the previous loan was HHH or the Affordable Housing Managed Pipeline ("AHMP"); or would be the same as the AHMP if the previously approved loan was from the Affordable Housing & Sustainable Communities program. Deferring the construction interest will delay the collection of funds used for staffing and investment in new projects. However, it is an efficient and inexpensive tool to expedite conversion from construction to permanent financing.

### Future Project Needs and AHMP Impacts

While the funds available through approval of this transmittal will immediately get projects moving once again and bring people in need closer to having a place to call home, at least five projects in construction applied for Fast Track or exist in the AHMP portfolio and have requested gap financing for the same reasons previously mentioned in this report. These projects, however, have not sought out every possible funding source and, as such, LAHD has instructed them to seek out funds from other lenders before returning to LAHD. That said, it is likely that LAHD will report back in the near future with additional gap financing recommendations pending the outcome of these projects. It is critical that projects in construction obtain the financing they need immediately so that units can come online quicker, and people in interim housing may be able to apply for those units.

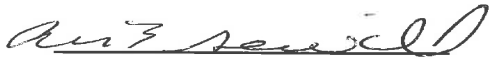
Given the urgency in moving people indoors and to permanent housing as quickly as possible, LAHD will prioritize gap financing for projects currently in construction and closer to completion, than those in predevelopment. This commitment to fund projects in construction and bring them to completion will negatively impact the available funds typically reserved for the Affordable Housing Managed Pipeline.

Each year, LAHD opens the application process for the Affordable Housing Managed Pipeline (AHMP). That Notice of Funding Availability (NOFA) ranges from year to year but on average the amount available is between \$50 million and \$60 million. Because so many current projects under construction face unprecedented impacts due to market conditions – including material cost increases and delivery delays, rising interest rates and increased costs and decreased coverage of insurance – LAHD will prioritize current project completion first and funding of potential new projects, second. Upon approval by the City Council, money anticipated for use in the AHMP will be diverted to support immediate project completion. LAHD anticipates delaying the next AHMP until the first quarter of FY 2024-25.

### FISCAL IMPACT

There is no General Fund impact for the Fast Track Program.

Approved By:

A handwritten signature in black ink, appearing to read "Ann Sewill", written over a horizontal line.

ANN SEWILL

General Manager

Los Angeles Housing Department

ATTACHMENT:

Attachment A Fast Track Staff Reports

Ann Sewill, General Manager  
Tricia Keane, Executive Officer

Daniel Huynh, Assistant General Manager  
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**Karen Bass, Mayor**

### **803 E. 5th Street Staff Report**

#### Recommended Loan

The total loan increase being recommended for the 803 E. 5th Street (Project) is \$7,125,000 for a total revised loan amount from \$15,120,000 to \$22,245,000. The revised Los Angeles Housing Department (LAHD) loan amount will represent a cost of \$236,649 per restricted unit and 25.93% of the total development cost. In addition, \$457,790 in accrued LAHD construction period interest is being deferred. The LAHD funds are leveraged primarily by equity proceeds from the sale of 4% LIHTCs and the other permanent funding sources.

803 E 5<sup>th</sup> Street has exhausted all supplemental funding options. In this case the project received additional funding from the following sources:

- a. A \$6,900,000 supplemental bond allocation
- b. Additional funding (\$2,100,000) from the Los Angeles County Development Agency (LACDA).

Even with these additional funds, the project requires an additional \$7,125,000 to complete construction.

#### Project Description

The Project is located at 803-813 East 5th Street, Los Angeles CA, 90013 in Council District 14 and is being developed by CRCDD LLC. Coalition for Responsible Community Development (CRCDD) is the sole member of CRCDD LLC. The Project is an adaptive reuse of three interconnected commercial buildings which include two three story structures and one seven story structure. The project consists of 94 residential units serving homeless and chronically homeless individuals along with a two-bedroom manager's unit. The unit breakdown is as follows: 94 studios and 1 two-bedroom manager's unit.

The project is currently under construction and expects to complete construction in February of 2025. The addition of the \$7,125,000 funds will allow the project to meet its anticipated completion date.

#### Project Eligibility

803 E. 5th Street meets the following criteria:

1. 803 E. 5th Street has an LAHD HHH funding commitment, an allocation from the California Debt Limit Allocation Committee (CDLAC), a Los Angeles County Development Authority (LACDA) No Place Like Home (NPLH) loan.
2. 803 E. 5th St does not have any loans that have converted to permanent financing
3. 803 E. 5th St has demonstrated that the construction will be completed by the placed-in-service deadline
4. CRCDD, LLC is deferring more than 50% of their developer fee

#### Project's Cost Increase

Since the project received its initial HHH funding award from LAHD in March of 2019 there have been a number of key factors that have contributed to an increase in the project's budget including:

*Environmental/Structural conditions:* There were two major impacts in this category that negatively affected the project's budget and timeline including:

- a. Environmental Remediation: CRCDD, LLC was required to perform additional environmental remediation due to the asbestos and lead based paint.
- b. Structural and foundation Changes: Significant changes to the structural foundation and delays with approvals have slowed construction. These delayed the construction schedule and resulted in a number of change orders.

Approximately 80% of the hard cost contingency was used at the beginning of construction due to items above, pushing the project out of balance.

*Los Angeles Department of Building and Safety (LADBS) required changes:* The structural and foundation changes caused delays in obtaining approvals of the construction plans. During the approval process the cost of materials and sub-contractor bids increased. The redesign of the structural plans required micro piles, a fiber reinforced polymer coating, design changes to reinforce the concrete foundation and design changes to the steel framing of the structures.

*Increased soft costs and other costs due to delayed construction schedule:* Due to the construction delays noted above, the project incurred additional consultant fees and will incur additional softs costs such as architect construction administration, construction management, insurance premiums, and inspector fees.

#### Attempts to Offset Project's Cost Increase

803 E 5<sup>th</sup> St took the following steps to minimize the impact of the Projects increase:

- a) Pursued and received a supplemental bond allocation
- b) Pursued and received an LACDA award

#### Priority

The date scheduled to be placed-in-service for the project is February of 2025. In order to ensure that this timeline is met, it is critical that the project not incur any more construction delays. By providing supplemental funds to close the project's financial gap, the project will meet its placed-in-service deadline.

*(The project's financials follow this report)*

Construction Sources

<b>Construction</b>	<b>Construction Closing (Oct. 2021)</b>	<b>Revised Source</b>	<b>Revised Sources/Unit</b>	<b>\$ Variance</b>	<b>% Variance</b>
LAHD HHH	\$ 2,400,000	\$ 12,300,000	\$ 129,474	\$ 9,900,000	413%
Construction Loan	\$ 28,000,000	\$ 40,000,000	\$ 421,052	\$ 12,000,000	43%
LACDA NPLH	\$ 14,400,000	\$ 12,960,000	\$ 136,421	\$(1,440,000)	-10%
LACDA Supplemental	\$	\$ 2,100,000	\$ 22,105	\$ 2,100,000	N/A
Deferred Costs	\$ 3,949,371	\$ 1,814,060	\$ 19,095	\$(2,135,311)	-54.07%
Def Dev Fee	\$ -	\$ 2,500,000	\$ 26,316	\$ 2,500,000	N/A
LIHTC Equity	\$ 13,130,270	\$ 14,107,091	\$ 148,496	\$ 976,821	7%
<b>TOTAL</b>	<b>\$ 61,879,641</b>	<b>\$ 85,781,151</b>	<b>\$ 902,959</b>	<b>\$ 23,901,510</b>	<b>39%</b>

Permanent Sources

<b>Permanent</b>	<b>Construction Closing (Oct. 2021)</b>	<b>Revised Source</b>	<b>Revised Sources/Unit</b>	<b>\$ Variance</b>	<b>% Variance</b>
Perm Loan	\$ 12,000,000	\$ 16,163,464	\$ 170,142	\$ 4,163,464	35%
LAHD HHH	\$ 15,120,000	\$ 15,120,000	\$ 159,158	\$ 0	0%
LAHD Supplemental	\$ -	\$ 7,125,000	\$ 75,000	\$ 7,125,000	N/A
LAHD Deferred Accrued Interest	\$	\$ 457,790	\$ 4,819	\$ 457,790	N/A
LACDA NPLH	\$ 14,500,000	\$ 14,900,000	\$ 156,842	\$ 400,000	3%
LACDA Supplemental	\$	\$ 2,100,000	\$ 22,105	\$ 2,100,000	N/A
Def Dev Fee	\$ 1,083,475	\$ 1,537,501	\$ 16,184	\$ 454,026	42%
LIHTC Equity	\$ 19,176,166	\$ 28,377,396	\$ 298,709	\$ 9,201,230	48%
<b>TOTAL</b>	<b>\$ 61,879,641</b>	<b>\$ 85,781,151</b>	<b>\$ 902,959</b>	<b>\$ 23,901,510</b>	<b>39%</b>

Uses

Uses of Funds	Construction Closing (Oct 2021)	Revised Uses	Revised Uses/Unit	\$ Variance	% Variance
Acquisition Costs	\$ 16,289,085	\$ 16,289,085	\$ 171,464	\$ 0	n/a
Construction Hard Costs	\$ 32,039,959	\$ 47,975,711	\$ 505,007	\$ 15,935,752	50%
Architecture & Engineering	\$ 1,474,017	\$ 3,213,485	\$ 33,826	\$ 1,739,468	118%
Construction Interest Fees/ Expenses	\$ 2,566,300	\$ 4,439,203	\$ 46,728	\$ 1,466,184	57%
Permanent Financing Costs	\$ 217,500	\$ 262,500	\$ 2,763	\$ 45,000	21%
Total Hard & Soft Contingency Costs	\$ 3,603,996	\$ 4,518,612	\$ 47,564	\$ 914,616	48%
Legal Costs	\$ 255,000	\$ 180,000	\$ 1,894	\$ (75,000 )	-29%
Reserves	\$ 1,735,876	\$ 1,735,876	\$ 18,272	\$ 0	0%
Permits and Local Fees	\$ 373,908	\$ 688,000	\$ 7,243	\$ 314,092	84%
Developer Fee	\$ 2,500,000	\$ 2,500,000	\$ 26,316	\$ 1,250,000	50%
Other Project Costs	\$ 814,000	\$ 3,978,679	\$ 41,882	\$ 2,311,398	284%
<b>TOTAL</b>	<b>\$ 61,879,641</b>	<b>\$ 85,781,151</b>	<b>\$ 902,959</b>	<b>\$ 23,901,510</b>	<b>39%</b>

Ann Sewill, General Manager  
Tricia Keane, Executive Officer

Daniel Huynh, Assistant General Manager  
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## City of Los Angeles



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**Karen Bass, Mayor**

### **Broadway Apartments Staff Report**

#### Recommended Loan

The total loan increase being recommended for Broadway Apartments is \$1,040,664 for a total revised loan amount of from \$4,443,480 to \$5,484,144. The revised LAHD loan amount will represent a cost of \$161,298 per restricted unit and 5.1% of the total development cost. In addition, \$689,896 in accrued LAHD construction period interest is being deferred. Broadway Apartment has already received an HHH commitment and syndicated its allocation of 4% credits.

Broadway Apartment has exhausted all supplemental funding options, in this case, the project received additional funds from the following sources:

- a. Permanent loan from Redstone
- b. Seller Note

Even with these additional funds, the project requires an additional \$1,040,664 to complete construction, convert to permanent financing and become fully operational.

#### Project Description

Broadway Apartments is located at 301 W, 49<sup>th</sup> Street, Los Angeles, CA 90037. The Broadway Apartments development entails the rehabilitation of an existing motel that is comprised of one two-story building and an additional one-story building. The project provides 34 housing units for individuals experiencing homelessness/chronic homelessness and 1 manager unit, for a total of 35 units. After almost 4 years of delays and challenges during construction, the project secured its Temporary Certificate of Occupancy ("TCO") on March 21, 2023 and received its final Certificate of Occupancy in May 2023.

#### Project Eligibility

The Broadway Apartments development meets the following criteria:

1. Broadway Apartments has an LAHD HHH funding commitment and an allocation from the California Tax Credit Allocation Committee (CTCAC)
2. Broadway Apartments does not have any loans that have converted to a permanent financing
3. Broadway Apartments has demonstrated that the construction will be completed by the placed-in-service deadline
4. The developer is deferring 50% of their developer fee

#### Project's Cost Increase

Since the initial HHH funding award from LAHD in May 2019 there have been a number of key factors that have contributed to an increase in the project's budget. The Project has incurred overall cost overruns of \$ 6,765,000 which is 49% of the original budget.

*Increased financing costs related to substantial delays:* Though a notice to proceed was issued on March 2, 2020, a little over two weeks later, the City of Los Angeles issued the Safer at Home Emergency Declaration due to the outbreak of

COVID-19. The order created extreme challenges for the project, its vendors, suppliers, and subcontractors. Staff was forced to socially distance themselves and work from home, when possible. Uncertainty about health risks, protocols, permitting and in-person meetings were among the many complicated factors that slowed down and ultimately drove up the cost of construction and created scheduling delays and labor shortage during the first and most critical part of the project. Concurrently, the delay resulting from the shutdown resulted in significant interest costs that were beyond the amount modeled and contemplated. Additional financing costs resulting from extension fees and carried interest expenses resulted in adding \$ 1,145,000 to the budget.

*Change in Scope of Work:* The Broadway Apartments project is a rehabilitation of an existing motel. As a result, the anticipated scope of work was rendered insufficient when the walls were opened, and further analysis was undertaken once demolition was underway. Unforeseen building conditions were uncovered once building drywall was removed such as major structural issues that required structural retrofitting of walls and new shear walls. Over 60% of interior wall framing and drywall had to be replaced due to severe mold and termite issues. In addition, a complete re-plumbing and rewiring was needed to meet the current code. Given that the Broadway Motel was an operating motel the assumption had been that the rehabilitation efforts would be minimal for conversion to affordable housing. Thus, the original project estimates included budget for some repairs, but the actual repair exceeded project valuations significantly. The building was in a substantially worse condition than could have been known from project walks and surveys. Simultaneously, added costs from material and labor continued to increase as the pandemic extended for months and then years. Increased costs from the change of scope and increased material and labor costs resulted in an additional \$ 1,791,000.

*Change in code and ordinance consideration:* When the Broadway Apartments were originally planned and approved, the building plans were reviewed and approved by the various City departments under the provisions of the “motel conversion ordinance”. Given the delays in moving forward, when the project team finally sought permits to begin construction, it was revealed that there were a number of unpermitted units in the existing building that required permitting. The extra units triggered “the light housekeeping ordinance”, and a significantly higher budget because of the increased construction scope. Further, certain items that would have been grandfathered were no longer permitted, so all systems in the building had to be upgraded. This prompted the need for new fire sprinklers to the building and upsizing of the water supply and waste lines. The light housekeeping code also created the need for trenching, saw cutting of floors, additional coring, labor, demo of walls and increased expenses resulting from those added materials costs. The costs associated with this significant change of scope resulted in \$ 1,194,000.

*NAC related costs and delays:* While the Broadway Apartments received its Temporary Certificate of Occupancy (TCO) on March 21, 2023, the Neutral Accessibility Consultant or NAC (as third party-inspector) recommended many punch accessibility requirements that were not originally part of the approved plans. Further, the NAC mandated alterations required follow-up inspections which added to the construction timeline and thus the budget. These costs were approximately \$127,000.

*Security Costs:* During the entire period of delay, COVID and lagging construction, 24/7 security became a necessity as there were squatters on the site every week. As a result, a significant variance in the budget accounts for dollars needed to secure the materials and improvements at the Broadway Avenue Apartments. The variance in the budget totals \$362,000.

#### Attempts to Offset Project’s Cost Increase

The developer took the following attempts at reducing the budget gap:

- a) The development team has deferred developer fee of approximately \$643,721 to advance the project through construction.



- b) The general partner and co-developer (FFAH) has advanced \$1,048,000 of developer equity and loans over the last 2 years to enable the completion of construction and so that the mission of providing affordable housing for previously homeless Veterans can be accomplished, and so that a default can be avoided. In addition, the general partner and co-developer (SLC) has advanced \$294,000 since the start of construction in order pay soft costs and interest costs necessary for the project to continue.
- c) The General Contractor has reduced its overhead and profit and has advanced costs associated with subcontractor work in the amount of \$797,000 to keep the project construction moving when funding sources were not available. Without these advances from the developers and general contractor, the project would have stalled, not been able to achieve completion and ended up in default.
- d) The development team worked with the limited partner and investor to reduce adjusters. In addition, the limited partner advanced equity installments ahead original schedule to help get the projects to completion. In addition, the limited partner advanced funds for insurance and interest costs in the amount of \$130,000 to avoid default and non-compliance.
- e) The development team secured Supplemental Tax-Exempt Multi-Family Bonds in the amount of \$2,220,000 in an effort to meet the 50% test that was lacking due to the significant increases in construction and project financing expenses.
- f) The Supplemental Bonds also resulted in a higher tax credit rate which was able to provide additional LIHTC equity to enable a narrowing of the gap that had resulted from the construction delays and increased financing costs.
- g) The developer has worked with the Lender to project out an increase in permanent loan based on increased rents and Net Operating Income (NOI) the project is expected to achieve. The additional permanent loan proceeds will allow for relief of some of the gap in funding caused by the cost overruns. The current estimated increase in permanent loan is \$850,000.
- h) The development team worked with subordinate lenders, to defer interest payment required on subordinate loans to offset part of the interest costs and reduce the gap in funding.

#### Partnership

Friendship for Affordable Housing, LLC (“FFAH”) is a member of Broadway Apartments GP LLC and Administrative General Partner (“AGP”) of Broadway Apartments Preservation, LP. FFAH is pursuing acquisition of the 1% and 32.4% membership interest in AGP currently owned by Shangri-La Construction, L.P. (“SLC”), and AW Investment Holdings, LLC (“AWIH”), respectively (the “Acquisition”). The result of this Acquisition will be that FFAH becomes the sole member of AGP.

SLC and AWIH no longer wish to remain members of AGP. FFAH wishes to acquire the membership interest of SLC and AWIH, and FFAH, SLC and AWIH have already agreed in principle for the Acquisition to take place, pending obtaining all necessary consents to the Acquisition. As FFAH is already a member of AGP, no other outside parties would be admitted into the ownership structure as a result of the Acquisition. Pending Council approval, LAHD will provide additional funding only concurrent with or after the Acquisition.

#### Priority

In order to ensure that the timeline for conversion is met, it is critical that the project not incur any more delays. Without providing additional funds to the project, the existing gap may cause the project to not be able to convert to

a permanent mortgage and, become at risk of default, or have the construction loan mature which would subsequently result in default. It is therefore essential that Broadway Apartments received \$1,040,644 so the project will meet its stabilization and conversion deadline. It's estimated to perm convert in February 2024.

*(The project's financials follow this report)*

Construction Sources (original vs. revised)

<b>Construction</b>	<b>Construction Closing (Aug 2018)</b>	<b>Revised Sources</b>	<b>Revised Sources/Unit</b>	<b>\$ Variance</b>	<b>% Variance</b>
Tax Exempt Bond Proceeds	\$ 6,500,000	\$ 6,500,000	\$ 185,714	\$ -	0%
LAHD HHH	\$ 4,443,480	\$ 4,443,480	\$ 126,957	\$ -	0%
Seller Note	\$ 871,845	\$ 1,600,000	\$ 45,714	\$ 728,155	84%
Deferred Developer Fee	\$ 776,977	\$ 1,024,483	\$ 29,271	\$ 247,506	32%
Limited Partner Equity	\$ 1,196,217	\$ 1,210,530	\$ 34,587	\$ 14,313	1%
Construction Period Cash Flow	\$ -	\$ 33,236	\$ 950	\$ 33,236	N/A
Costs Deferred During Construction	\$ -	\$ 3,232,370	\$ 92,353	\$ 3,232,370	N/A
LAHD Supplemental	\$ -	\$ 1,040,664	\$ 29,733	\$ 1,040,664	N/A
Gap Financing - GP Loans	\$ -	\$ 1,468,794	\$ 41,966	\$ 1,468,794	N/A
<b>Total</b>	<b>\$ 13,788,519</b>	<b>\$20,553,557</b>	<b>\$ 587,244</b>	<b>\$ 6,765,038</b>	<b>49%</b>

Permanent Sources (original vs revised)

<b>Permanent</b>	<b>Construction Closing (Aug 2018)</b>	<b>Revised Sources</b>	<b>Revised Sources/ Unit</b>	<b>\$ Variance</b>	<b>% Variance</b>
Tax Exempt Bond Proceeds	\$ 3,957,953	\$ 4,850,000	\$138,571	\$ 892,047	23%
LAHD HHH	\$ 4,443,480	\$ 4,443,480	\$126,957	\$ -	0%
Seller Note	\$ 871,845	\$ 1,600,000	\$ 45,714	\$ 728,155	84%
Seller Note Deferred Interest	\$ -	\$ 245,571	\$ 7,016	\$ 245,571	N/A
LAHD HHH Deferred Interest	\$ -	\$ 689,896	\$ 19,711	\$ 689,896	N/A
LAHD Supplemental	\$ -	\$ 1,040,664	\$ 29,733	\$ 1,040,664	N/A
Deferred Developer Fee	\$ 343,742	\$ 643,721	\$ 18,392	\$ 299,979	87%
Limited Partner Equity	\$ 3,987,394	\$ 7,006,989	\$200,200	\$ 3,019,595	76%
Construction Period Cash Flow	\$ 184,105	\$ 33,236	\$ 949	\$ (150,869)	-82%
Gap Financing	\$ -	\$ -	\$ -	\$ -	N/A
<b>Total</b>	<b>\$ 13,788,519</b>	<b>\$ 20,553,557</b>	<b>\$ 587,244</b>	<b>\$ 6,765,038</b>	<b>49%</b>

Uses (original vs. revised)

Uses of Funds	Original 08/2018	Current 07/2023	Per Unit	\$ Variance	% Variance
Acquisition Costs	\$ 7,000,000	\$ 7,000,000	\$200,000	\$ -	0%
Construction Hard Costs	\$ 2,308,324	\$ 5,421,327	\$154,895	\$ 3,113,003	135%
Architecture & Engineering	\$ 333,500	\$ 398,865	\$ 11,396	\$ 65,365	20%
Construction Interest Fees/ Expenses	\$ 1,033,667	\$ 3,253,852	\$ 92,967	\$ 2,220,185	215%
Permanent Financing Costs	\$ 89,580	\$ 191,350	\$ 5,467	\$ 101,770	114%
Total Hard & Soft Contingency Costs	\$ 643,142	\$ 529,365	\$ 15,125	\$ (113,777)	-18%
Legal Costs	\$ 435,000	\$ 430,700	\$ 12,306	\$ (4,300)	-1%
Capitalized Reserves	\$ 286,954	\$ 512,038	\$ 14,630	\$ 225,084	78%
Other Project Costs	\$ 370,869	\$ 1,528,577	\$ 43,674	\$ 1,157,708	312%
Developer Fee	\$ 1,287,483	\$ 1,287,483	\$ 36,785	\$ -	0%
<b>Total</b>	<b>\$13,788,519</b>	<b>\$20,553,557</b>	<b>\$587,244</b>	<b>\$ 6,765,038</b>	<b>49%</b>

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### Karen Bass, Mayor Bryson II Apartments Staff Report

#### Recommended Loan

The total loan increase being recommended for Bryson II is \$1,900,000 for a total revised loan amount from \$10,060,000 to \$11,960,000. The revised LAHD loan amount will represent a cost of \$189,841 per restricted unit and 31% of the total development cost. In addition, \$390,601 in accrued LAHD construction period interest is being deferred. The LAHD funds are leveraged primarily by equity proceeds from the sale of 9% LIHTCs and the other permanent funding sources outlined below.

Bryson II has exhausted all supplemental funding options, in this case, the project applied for additional funds from the following sources:

- a. Underground Storage Clean Up Funds: Application is pending
- b. Additional Permanent Loan: Permanent lender is anticipated to increase the permanent loan by \$1,300,000 (as reflected in the permanent sources)

#### Project Description

Bryson II Apartments (“the project”), located at 2701 Wilshire Boulevard, in Council District 1 and developed by The Richman Group of California (TRG), is a new construction project consisting of 64 residential units serving homeless and chronically homeless individuals and families. The unit breakdown is as follows: 32 studios, 31 one-bedroom units, and 1 one-bedroom manager’s unit.

The project is currently under construction and is 85% complete. The addition of the Fast Track funds will allow the project to meet its anticipated completion date of February 2024.

#### Project Eligibility

Bryson II Apartments meets the following criteria:

1. Bryson II has an LAHD HHH funding commitment, an allocation from the California Tax Credit Allocation Committee (CTCAC) and a loan from the State Department of Developmental Services (DDS)
2. Bryson II does not have any loans that have converted to permanent financing
3. Bryson II has demonstrated that the construction will be completed by the placed-in-service deadline
4. TRG is deferring 50% of their developer fee

#### Project’s Cost Increase

Since the project closed its construction financing in April of 2021 there have been a number of key factors that have contributed to an increase in the project’s budget including:

*Underground Storage Tank:* Despite Phase I, Phase II, methane and geotechnical predevelopment investigations, during grading an underground storage tank was discovered. Removal and remediation resulted in \$60,865 of cost, another \$63,171 in general contractor general requirements, and additional soft costs (engineering & legal) to gain approvals from the

Regional Water Quality Control Board. Additionally, the schedule was impacted 40 calendar days resulting in increased construction interest and insurance extensions.

*Switchgear:* The general contractor ordered the switchgear one year in advance to be delivered to the site in December 2022 (approximately 5 months prior to the then expected completion date). The manufacturer notified the general contractor in December 2022 that the switchgear parts were affected by supply chain issues and would not be delivered until October 2023. Parts were not received until late July 2023 which pushed projected installation and commissioning into September 2023. This caused a nearly 7-month delay resulting in \$252,191 of approved increases for contractor general condition/requirements and another \$372,809 currently projected and under negotiation.

*Escalation:* The construction loan closing and commencement of construction occurred in April 2021. During this volatile time, there were significant, extraordinary increases in escalation for raw materials. The project was hit with \$203,696 in lumber escalation, \$99,761 in electrical escalation, and other miscellaneous increases.

*Security:* Per the developer's standard, the site is securitized by general contracting staff and electronic 24-remote surveillance. Increased, overnight manned security became a necessity for the entirety of the construction schedule due to theft. The total increase for over two years of seven-day per week manned security is approximately \$696,741.

*Dry Utility Scope Increase:* Inspectors for LADWP increased the scope of connections from building to utility lines during construction causing a \$253,972 increase to the construction budget.

*Construction Loan Interest & Insurance Extensions:* Total of \$1,043,606 of additional projected construction loan interest has increased the budget as the project closed with a floating interest rate and \$1.4M budgeted for interest reserve. Current interest rates have increased and a total of \$2.4M is needed for the interest reserve.

*Other Cost Impacts:* Other cost impacts are detailed in the general contractor's "PCO Log". This log includes transparent insight into every hard cost impact approved, pending and under negotiation. Other impacts worth mentioning include: EBM system changes, DAS system requirement, architectural addendums F & G stemming from last minute plan check changes received at the closing, revisions issued during construction, changes to countertops, fixtures, and cabinets resulting from CASp review of the mock up unit, and other course of construction change orders.

#### Attempts to Offset Project's Cost Increase

TRG took the following steps to minimize the impact of the Project's increase in development costs:

- a) Applied for AHP funds and did not score high enough to be competitive.
- b) Applied for the Community Care Expansion Program (CCE) and the project did not meet threshold because funding from the State's Department of Developmental Services (DDS) disqualified the project.
- c) Informally requested additional funding from the State's DDS/Lanterman Regional Center and was denied.

#### Priority

The project has had to complete the work in the absence of additional funding available to prevent jeopardizing the completion and repayment guaranty commitments. Further financial consequences from the lender and tax credit investor include negative timing adjusters with the investor, construction loan delays and potential expiration of the loan term. The project is out of contingency and is at risk of the construction lender triggering the completion guaranty or putting the project in default if the gap is not filled.

*(The project's financials follow this report)*

Construction Sources

Construction	Construction Closing (Apr 2021)	Revised Sources	Revised Sources/ Unit	\$ Variance	% Variance
Construction Loan	\$ 17,650,000	\$ 17,650,000	\$ 275,781	\$ -	0.00%
LAHD HHH	\$ 10,060,000	\$ 10,060,000	\$ 157,188	\$ -	0.00%
LAHD Supplemental	\$ -	\$ 1,900,000	\$ 29,688	NA	NA
LAHD Deferred Construction Interest	\$ 605,000	\$ 390,601	\$ 6,103	\$ (214,399)	-35.44%
Bridge Loan GP	\$ -	\$ 2,150,093	\$ 33,595	NA	NA
Lanterman/DDS	\$ 1,000,000	\$ 1,000,000	\$ 15,625	\$ -	0.00%
Deferred Dev Fee	\$ 1,870,000	\$ 1,870,000	\$ 29,219	\$ -	0.00%
Deferred Cost	\$ 440,000	\$ 440,000	\$ 6,875	\$ -	0.00%
LIHTC Equity	\$ 2,903,722	\$ 2,903,722	\$ 45,371	\$ -	0.00%
<b>Total</b>	<b>\$ 34,528,722</b>	<b>\$ 38,364,416</b>	<b>\$ 599,444</b>	<b>\$ 3,835,694</b>	<b>11.11%</b>

Permanent Sources

Permanent	Construction Closing (Apr 2021)	Revised Sources	Revised Sources/ Unit	\$ Variance	% Variance
Permanent Loan	\$ 5,186,359	\$ 6,544,293	\$ 102,255	\$ 1,357,934	26.18%
LAHD HHH	\$ 10,060,000	\$ 10,060,000	\$ 157,188	\$ -	0.00%
LAHD Supplemental	\$ -	\$ 1,900,000	\$ 29,688	NA	NA
LAHD Deferred Construction Interest	\$ -	\$ 390,601	\$ 6,103	\$ 390,601	NA
Bridge Loan GP	\$ -	\$ -	\$ -	NA	NA
Lanterman/DDS	\$ 1,000,000	\$ 1,000,000	\$ 15,625	\$ -	0.00%
Deferred Dev Fee	\$ -	\$ 1,100,000	\$ 17,188	\$ 1,100,000	NA
LIHTC Equity	\$ 18,282,367	\$ 17,369,522	\$ 271,399	\$ (912,845)	-4.99%
<b>Total</b>	<b>\$ 34,528,726</b>	<b>\$ 38,364,416</b>	<b>\$ 599,444</b>	<b>\$ 3,835,690</b>	<b>11.11%</b>



Uses

Uses of Funds	Construction Closing (Apr 2021)	Revised Uses	Revised Sources/ Unit	\$ Variance	% Variance
Acquisition Costs	\$ 3,080,000	\$ 3,080,000	\$ 48,125	\$ -	0.00%
Construction Hard Costs	\$ 20,521,002	\$ 24,946,526	\$ 389,789	\$ 4,425,524	21.57%
Architecture & Engineering	\$ 2,025,982	\$ 2,025,982	\$ 31,656	\$ -	0.00%
Construction Interest Fees & Expenses	\$ 1,871,526	\$ 2,915,132	\$ 45,549	\$ 1,043,606	55.76%
Permanent Financing Costs	\$ 86,864	\$ 86,864	\$ 1,357	\$ -	0.00%
Total Hard & Soft Contingency Costs	\$ 1,191,050	\$ -	\$ -	\$ (1,191,050)	-100.00%
Legal Costs	\$ 350,000	\$ 350,000	\$ 5,469	\$ -	0.00%
Capitalized Reserves	\$ 440,000	\$ 440,000	\$ 6,875	\$ -	0.00%
Permits and Local Fees	\$ 1,153,298	\$ 545,908	\$ 8,530	\$ (607,390)	-52.67%
Developer Fee	\$ 2,200,000	\$ 2,200,000	\$ 34,375	\$ -	0.00%
Other Project Costs	\$ 1,609,004	\$ 1,774,004	\$ 27,719	\$ 165,000	10.25%
<b>Total</b>	<b>\$ 34,528,726</b>	<b>\$ 38,364,416</b>	<b>\$ 599,444</b>	<b>\$ 3,835,690</b>	<b>11.11%</b>

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## City of Los Angeles



**Karen Bass, Mayor**

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### **Firmin Court Apartments Staff Report**

#### Recommended Loan

The total loan increase being recommended for Firmin Court is \$910,107 for a total revised loan amount of \$12,610,107. The revised LAHD loan amount will represent a cost of \$197,033 per unit and 27.69% of the total development cost. In addition, LAHD construction period interest is being deferred. The LAHD funds are leveraged primarily by equity proceeds from 4% low-income housing tax credits and the other permanent funding sources outlined below.

#### Project Description

Firmin Court Apartments (the "Project") completed construction in June 2023. The seven-story building is located at 424 North Firmin Street, Los Angeles, CA. The building consists of the 63 affordable studio, one, two and three-bedroom rental apartment units and one two-bedroom manager's unit. Forty-five (45) of the units are occupied by formerly chronically homeless individuals at or below 30% Area Median Income(AMI), using the Permanent Supportive Housing (PSH) model of care. The remaining eighteen (18) units are restricted to families at or below 60% AMI. The forty-five PSH units are subsidized by project-based vouchers administered by the Housing Authority of the City of Los Angeles (HACLA).

The Project received its Temporary Certificate of Occupancy (TCO) on December 16, 2022 and expects the final Certificate of Occupancy(CO) in the next few days. Since TCO, the Project has achieved 100% qualified occupancy and all parties are working to complete permanent finance conversion by February 2024.

The addition of the Fast Track funds will help to relieve the additional burden on the project and developer from the cost increases discussed below.

#### Project Eligibility

Firmin Court meets the following criteria:

1. Firmin Court has received financing from LAHD's Proposition HHH PSH Program, a tax-exempt and taxable bond loans, and tax credit equity from the sale of 4% Low Income Housing Tax Credits (LIHTCs), a California Department of Housing and Community Development (HCD) Supportive Housing Multifamily Housing Loan Program (SHMHP) loan and a CIT/First Citizens taxable "Tranche B" Perm Loan.
2. Firmin Court does not have any loans that have converted to permanent financing.
3. Firmin Court completed its construction prior to its Placed in Service deadline.
4. The developer will not receive more than 50% of earned developer fee until the following milestones have been met: the project has received the TCO or CO, the project has been placed in service, and the project owner has submitted a copy of the executed first year's filing of IRS Form 8609 (Low-Income Housing Credit Allocation Certification) to LAHD.

#### Project Cost Increase

Since the project's construction financing closing in June of 2020 there have been several key factors that have contributed to a rise in the project's budget, including:

*Transformer Installation:* Given the physical constraints of the land on which Firmin Court is situated, the project required the installation of an internal transformer by the Los Angeles Department of Water and Power (LADWP). This installation was not completed until the middle of October or approximately three months later than projected. The developer was informed that LADWP lacked sufficient personnel to complete the project's transformer installation and respond to power outages due to the heat wave during that period. Therefore, without the availability of electrical power, essential inspections by the Los Angeles Department of Building and Safety (LADBS) could not be initiated and completed.

*Fire Pump Testing:* A LADBS inspector committed to attend a fire pump flush test with the Los Angeles Fire Department (LAFD) before Thanksgiving but the inspector failed to appear. As a result, while the test was conducted and the result was approved by LAFD, the test had to be redone with LADBS which did not occur until several weeks later. This delayed the issuance of the project's TCO which, in turn, impacted its lease-up process, especially during the holiday season.

*Entitlements:* The entitlements for the project required, among other things, that the house located at the subject site be designated as "historic" by the City of Los Angeles. As such, the house had to be relocated and renovated according to applicable restoration standards. The cost of renovating the house proved to be materially higher than expected.

*Oil Well Abandonment:* The development of the site also required the abandonment of a more than 100-year-old oil well in strict compliance with applicable regulatory requirements. The depth of the well proved to be considerably deeper than originally projected which significantly increased abandonment costs. Furthermore, because the soil was deemed contaminated, the general contractor was required to use a different excavation subcontractor who carried the regulatory certifications that allowed them to dispose of this type of soil. Additionally, the disposal sites that accept this type of soil were also costlier than originally contracted.

In addition to these increases in hard costs, there were many associated impacts to the project's softs costs such as design modifications and significant regulatory oversight during the abandonment and through excavation of the site.

*Construction Materials:* Walton Construction, the General Contractor, made extraordinary efforts to acquire construction materials during the height of the pandemic. During this period, lumber costs and heating, ventilation, and air conditioning material costs increased exponentially. Also, the availability of concrete was similarly constrained which impacted the construction schedule.

*Additional Soft Costs:* Due to the construction delays noted above, the project incurred additional consultant fees and will incur additional softs costs such as architect construction administration, construction management, insurance premiums, inspector fees and loan modification / extension fees. The project will also receive a downward adjustment in tax credit equity since the Project development was delayed from June 2022 to January 2023; the adjustment number is currently being finalized.

*Construction Loan Interest:* The Projects interest reserve account has been depleted and the payments are now being funded from a General Partner Capital Reserve Account. The GP Capital Reserve Account is a source for the Project's permanent conversion sources. The interest reserve was sized during a period of historically low interest rates and for a shorter construction period. Currently, the project's interest rate carry is approximately \$125,000 per month. This amount will increase once the developer draws down on the remaining bond loan funds in the next 30 days. The delay in permanent finance conversion is compounding the problem by increasing this shortfall monthly.

#### Attempts to Offset Project's Cost Increase

Firmin Court has exhausted all supplemental funding options, in this case, the developer applied for additional funds from the following source:

- a. Taxable Tranche B Loan: The permanent lender has agreed to provide up to a \$1.7 million in new taxable tranche B loan funds.
- b. Developer moved their GP Capital Contribution to be used during construction.
- c. Developer provided an additional advance of \$334,437 during construction.

Even with these measures, the project requires additional funds to convert to permanent financing.

Priority

The project anticipates to convert to permanent financing by February 2024. The developer is working to expedite closing the permanent financing as on a priority basis to decrease the accruing burden of the construction loan interest carry.

*(The project's financials follow this report)*

Construction Sources

<b>Construction Sources</b>	<b>Construction Closing Sources (June 2020)</b>	<b>REVISED Sources (Aug 2023)</b>	<b>Revised Sources/unit</b>	<b>\$ Variance</b>	<b>% Variance</b>
Tax Exempt Bond Loan	\$ 22,200,000	\$ 22,200,000	\$346,875	\$ 0	0%
LAHD Prop HHH Loan	\$ 11,700,000	\$ 11,700,000	\$182,813	\$ 0	0%
LAHD Supplemental	\$ 0	\$ 0	\$ 0	N/A	N/A
LAHD Deferred Construction Interest	\$ 514,800	\$ 665,938	\$ 10,405	\$ 151,138	29.36%
Costs deferred	\$ 1,688,695	\$ 2,895,426	\$ 45,241	\$1,206,731	71.5%
Deferred Developer Fee	\$ 1,520,452	\$ 1,250,000	\$ 19,531	\$ (270,452)	-17.8%
GP Equity	\$ 1,020,100	\$ 2,309,300	\$ 36,083	\$1,289,200	126.38%
GP Equity Advance	\$ 0	\$ 334,437	\$ 5,226	\$ 334,437	N/A
Tax Credit Limited Partner Equity	\$ 4,180,801	\$ 4,180,801	\$ 0	\$ 0	0%
<b>Total</b>	<b>\$42,824,848</b>	<b>\$ 45,535,901</b>	<b>\$711,498</b>	<b>\$2,711,054</b>	<b>6.3%</b>

Permanent Sources

<b>Permanent</b>	<b>Construction Closing Sources (June 2020)</b>	<b>REVISED Sources (Aug 2023)</b>	<b>Revised Sources/unit</b>	<b>\$ Variance</b>	<b>% Variance</b>
Tax Exempt Bond Perm Loan	\$ 7,473,000	\$ 7,473,000	\$ 116,767	\$ 0	0%
Taxable Bond Tranche B Permanent Loan	\$ 0	\$ 1,700,000	\$ 26,563	\$ 1,700,000	N/A
HCD SHMHP	\$ 5,677,960	\$ 5,677,960	\$ 88,718	\$ 0	0%
LAHD Prop HHH Loan	\$ 11,700,000	\$ 11,700,000	\$ 182,813	\$ 0	0%
LAHD Supplemental	\$ 0	\$ 910,107	\$ 14,220	\$ 910,107	N/A
LAHD Deferred Construction Interest	\$ 164,696	\$ 665,938	\$ 10,405	\$ 501,242	304%
Deferred Developer Fee	\$ 1,520,452	\$ 1,250,000	\$ 19,531	\$ (270,452)	-17.8%
GP Equity	\$ 2,309,300	\$ 2,309,300	\$ 36,0830	\$ 0	0%
Tax Credit Limited Partner Equity	\$13,979,440	\$13,849,596	\$(216,400)	\$(129,844)	-.9%
<b>Total</b>	<b>\$42,824,848</b>	<b>\$45,535,901</b>	<b>\$ 711,498</b>	<b>\$2,711,054</b>	<b>6.3%</b>

Uses

Uses of Funds	Total Uses (June 2020)	Revised Uses (August 2023)	Revised Uses/Unit	\$ Variance	% Variance
Acquisition Costs	\$3,196,646	\$ 4,703,112	\$ 73,486	\$1,015,166	24.60%
Construction Hard Costs	\$24,714,026	\$25,832,565	\$ 403,634	\$1,118,539	4.53%
Architecture & Engineering	\$1,078,576	\$ 2,133,114	\$ 33,330	\$ 318,538	17.6%
Construction Interest Fees/ Expenses	\$2,316,440	\$ 3,282,572	\$ 44,410	\$1,096,245	45.24%
Permanent Financing Costs	\$59,800	\$ 119,280	\$ 1,864	\$58,864	98.1%
Total hard & Soft Contingency Costs	\$1,983,134	\$ 0	\$ 0	\$(1,983,134)	-100%
Legal Costs	\$251,120	\$ 263,457	\$ 4,117	\$ 12,337	4.9%
Capitalized Reserves	\$1,041,430	\$ 1,188,526	\$ 18,571	\$ 147,096	14.1%
Permits and Local Fees	\$1,019,371	\$ 1,236,624	\$ 19,322	\$ 217,253	21.3%
Developer Fee	\$4,809,200	\$ 2,499,900	\$39,060	\$2,359,300	-48.0%
Other Project Costs	\$2,355,105	\$ 2,000,452	\$ 31,257	\$ 291,347	17.1%
<b>Total</b>	<b>\$42,824,848</b>	<b>\$45,535,901</b>	<b>\$711,498</b>	<b>\$2,711,054</b>	<b>6.3%</b>

Ann Sewill, General Manager  
Tricia Keane, Executive Officer

Daniel Huynh, Assistant General Manager  
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Luz C. Santiago, Assistant General Manager

## City of Los Angeles



LOS ANGELES HOUSING DEPARTMENT  
1200 West 7th Street, 9th Floor  
Los Angeles, CA 90017  
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**Karen Bass, Mayor**

### **Isla de Los Angeles Staff Report**

#### Recommended Loan

The total loan increase recommended for the Isla de Los Angeles (Project) is \$2,750,000 for a total revised loan amount from \$11,660,000 to \$14,410,000. The revised loan amount will represent a cost of \$271,887 per restricted unit and 36.87% of the total development cost. The loan funds are leveraged primarily by equity proceeds from the sale of 4% Low Income Housing Tax Credits (LIHTCs) and the other permanent funding sources outlined below.

#### Project Description

Isla de Los Angeles will be the new construction of 53 affordable one-bedroom apartment units plus 1 manager unit on a 18,000 sq. ft. lot at 283 W. Imperial Hwy., Los Angeles, CA 90061. The project will be a development constructed from recycled shipping containers for 53 individuals, and one manager's unit for a total of 54 new one-bedroom apartments. In addition to the 54 residential units, the project will also provide one commercial space, on-grade parking, a community room with kitchen on site, a secured pedestrian entry, management offices, and laundry facilities. Twenty-seven (27) units will be reserved for chronically homeless individuals who have severe mental illness and/or are frequent utilizers of the Los Angeles County Department of Health Services Program and services. Sixteen (16) units will be reserved for individuals experiencing homelessness, and ten (10) units will be reserved for veterans. Temporary Certificates of Occupancy are expected to be issued by January 15, 2024 for the first floor and February 15, 2024 for the upper floors. As the owner of the land, the City of Los Angeles (City) provided a ground lease (C-135303) to allow the borrower to develop the project.

#### Project Eligibility

Isla de Los Angeles meets the following criteria:

1. Isla de Los Angeles has financing from the City: \$11,660,000 HHH funds loan (C-135324), \$18,769,381 in bonds were issued, and a \$2,955,000 Annenberg grant (C-135347).
2. Isla de Los Angeles has funding from the Affordable Housing Program.
3. All needed funding sources have been secured with the exception of the requested amount listed above.
4. Isla de Los Angeles does not have any loans that have converted to permanent financing
5. Isla de Los Angeles has demonstrated that the construction will be completed by the placed-in-service deadline of February 29, 2024
6. Clifford Beers Housing is deferring 50% of their developer fee

#### Project's Cost Increase

Since the project closed on its construction financing in March of 2020 there have been a number of key factors that have contributed to an increase in the project's budget including unforeseen site/underground conditions. There were four major impacts in this category that negatively affected the project's budget and timeline including:

*Offsite Utilities, preparation of the site:* Considering the site's previous use as a traffic median, the site preparation required significant upgrades to bring utilities to a future development. The most impactful of these upgrades was the change in power sourcing to the site. The Los Angeles Department of Water and Power (DWP) changed the electrical source to draw power south of Imperial Highway, along Broadway. This change amounted to \$290,000 in added



project costs for additional right-of-way trenching, conduit materials, and labor. Similarly, other utility-related issues uncovered included the presence of an abandoned storm drain, which upon remediating then triggered the relocation of a newly-installed DWP vault, a partial bus pad demolition and replacement, and conduit rerouting, all for an additional \$90,000 in construction costs.

*The Annenberg Paseo (Paseo):* This is an extensive off-site community improvement project that is also part of the street vacation (for the building footprint) requirements. The extensive landscaping, which is termed the “Living Lung”, is not just for aesthetic/community enjoyment purposes but also to mitigate the pollutants in the area due to its proximity to the 110 Harbor Freeway, 105 Century Freeway, Imperial Highway and Broadway, all major thoroughfares. Another important aspect of the Paseo was to implement a Slow Streets concept given the high number of pedestrian injuries and fatalities in that specific area. As a result, the Paseo was designed as the City’s first shared street concept, shared by pedestrians, bicyclists, and motorist, with a number of traffic slowing improvement to support those efforts. The Paseo has been funded by the Annenberg Foundation (\$2,955,000).

Taking on such significant off-site scope has come with its challenges. Many unforeseen underground conditions have increased costs to the project. Recently, and as a clear example of this, the asphalt demolition of Athens Way uncovered a crumbling manhole riser in desperate need of replacement/support. During prior demolition of the sidewalks the on-site team uncovered two undisclosed manholes and one abandoned DWP line that needed proper abandonment, filling, or removal. Significant public right of way demolition paired with unprecedented rains last year resulted in deep water pools in those areas which necessitated water pumping, wet soil excavation and haul away, and stone replacement/compaction. Public Works’ Bureau of Contract Administration inspections have been another source of financial burden – both in asks and in b-permit fees. Some requests from Public Works have been reasonable, such as changing the street lighting conduit and electrical pull boxes because the existing infrastructure wasn’t working. Others have been more far-reaching, such as extensive curb and gutter replacement despite the existing condition having only minor chips and moderate wear. This replacement was not initially contemplated to be removed and replaced. Another cost was the specialty colored concrete planned to be poured at the Paseo’s sidewalks. The specialty concrete needed to be a City of Los Angeles approved product and installer. This particular product can only be procured and installed by two pre-approved subcontractors. Changing subcontractor resulted in approximately \$200,000 increase to the Schedule of values (Contractor Budget).

*Construction costs:* With the onset of COVID came reductions in factory and port labor which impacted global shipping lanes and module progress. Quantifiable pandemic-related labor and material shortages make up more than \$850,000 in added project costs. Also, the heavy rains late last year have necessitated the need for water pumping, wet soil excavation, emergency stone placement, and preventative measures to continuously prepare and re-prepare the site in its most important grading and landscape work period. The project had incurred months of rain delays, significantly contributing to the protracted schedule and associated interest and soft costs. Freight shipping and transportation of the fabricated shipping containers from China has increased in cost several times the pre-pandemic estimates, which has added approximately \$600,000 to hard costs.

*Construction financing:* Construction loan interest from the construction lender is projected to be \$2,150,000, more than a \$1,175,000 increase from projections at construction loan closing, when interest rates were nearly locked at 1.75%; rates are now over 7%. Not only has the project paid construction loan interest, but given the significant delays in getting all construction funding through funder approvals the project has paid about \$330,000 in contractor interest to ensure subcontractors remained on the jobsite. Because of the protracted construction schedule the paid construction-phase HHH interest cost will also increase. All unanticipated interest will result in over \$1.8M in additional project costs.

#### Attempts to Offset Project’s Cost Increase

The borrower has exhausted all supplemental funding options, in this case, the project received additional funds and is seeking funds from the following sources:

- a. An Affordable Housing Program (AHP) loan from the Federal Home Loan Bank of San Francisco in the amount of \$795,000 has been secured;
- b. Second Permanent Loan (increased perm loan from Key Bank) in the amount of \$1,643,998 has been secured;
- c. Second Supplemental Bond Allocation in the amount of \$1,300,000 was issued on May 12, 2023;
- d. A bridge loan in the amount of \$1,500,000 from Genesis LA was secured;
- e. The borrower was able to secure an additional \$1,170,000 in tax credit equity proceeds. A second approval for \$780,000 is still in process.
- f. The borrower applied for \$2.5M in funding from the Community Care Expansion Grant that is administered by the California Department of Social Services for social security recipients that are at risk of homelessness. A decision is expected in early 2024.

The borrower has requested that the investor waive the investor's negative timing adjusters due to the construction delays. The waiver would preserve much needed equity proceeds for the project. However, a decision will not be made until the 8609 has been secured, which will be secured by approximately June 30, 2024.

#### Priority

The date scheduled to be placed-in-service for Isla de Los Angeles is the end of February of 2024. In order to ensure that this timeline is met, it is critical that the project not incur any more construction delays. By providing supplemental funds to close the project's financial gap, the project will meet its placed-in-service deadline.

*(The project's financials follow this report)*

#### Construction Sources

<b>Construction</b>	<b>Construction Closing (March 2020)</b>	<b>Revised Source</b>	<b>Revised Sources/Unit</b>	<b>\$ Variance</b>	<b>% Variance</b>
Key Bank – Tax Exempt Loan	\$17,469,381	\$17,469,381	\$323,507	\$0	0%
Key Bank – Supplement Tax Exempt Loan Increase	\$-	\$1,300,000	\$24,074	\$1,300,000	N/A
Genesis LA Bridge Loan	\$-	\$1,500,000	\$27,778	\$1,500,000	N/A
LAHD HHH	\$8,600,000	\$8,600,000	\$159,259	\$0	0%
Annenberg	\$2,955,000	\$2,955,000	\$54,722	\$0	0%
Home Depot	\$100,000	\$100,000	\$1,852	\$0	0%
Affordable Housing Program (AHP)	\$-	\$795,000	\$14,722	\$795,000	0%
Deferred Costs	\$840,852	\$598,091	\$11,076	-\$242,761	-28.87%
GP Equity	\$100	\$100	\$2	\$0	0%
Def Dev Fee	\$2,822,732	\$1,770,850	\$32,794	-\$1,051,882	-37.27%
LIHTC Equity	\$2,039,046	\$3,991,546	\$73,918	\$1,952,500	95.75%
<b>TOTAL</b>	<b>\$34,827,111</b>	<b>\$39,079,968</b>	<b>\$723,703</b>	<b>\$4,252,857</b>	<b>12.21%</b>

Permanent Sources

<b>Permanent</b>	<b>Construction Closing (March 2020)</b>	<b>Revised Source</b>	<b>Revised Sources/Unit</b>	<b>\$ Variance</b>	<b>% Variance</b>
Perm Loan (Key Bank - Freddie Mac)	\$4,700,000	\$5,170,000	\$95,741	\$470,000	10%
LAHD HHH	\$11,660,000	\$11,660,000	\$215,926	\$ -	0%
Additional perm loan (Key Bank - Freddie Mac)	\$-	\$1,643,998	\$30,444	\$1,643,998	N/A
LAHD Supplemental	\$-	\$2,750,000	\$50,926	\$2,750,000	N/A
Annenberg Foundation	\$2,955,000	\$2,955,000	\$54,722	\$0	0%
Affordable Housing Program (AHP)	\$-	\$795,000	\$14,722	\$795,000	N/A
GP Equity	\$100	\$100	\$2	\$ -	0%
GP Capital Contribution – Recontributed Fee	\$1,781,830	\$ -	\$ -	-\$, 781,730	-100%
Home Depot Foundation	\$ 100,000	\$ 100,000	\$ 1,852	\$ 0	0%
Def Dev Fee	\$ 635,281	\$ 1,250,000	\$ 23,148	\$ 614,719	96.76%
LIHTC Equity	\$ 12,995,000	\$ 12,755,870	\$ 236,220	-\$ 239,130	-1.84%
<b>TOTAL</b>	<b>\$34,827,111</b>	<b>\$39,079,968</b>	<b>\$723,703</b>	<b>\$ 4,252,857</b>	<b>12.21%</b>

Uses

Uses of Funds	Construction Closing (March 2020)	Revised Uses	Revised Uses/Unit	\$ Variance	% Variance
Acquisition Costs	\$206,167	\$247,240	\$4,579	\$41,073	19.92%
Construction Hard Costs	\$21,858,076	\$26,480,566	\$490,381	\$4,622,490	21.15%
Architecture & Engineering	\$1,078,035	\$1,247,716	\$23,106	\$169,681	15.74%
Construction Interest Fees/ Expenses	\$1,923,081	\$3,490,373	\$64,637	\$1,567,292	81.5%
Permanent Financing Costs	\$176,839	\$339,561	\$6,288	\$162,722	92.02%
Total Hard & Soft Contingency Costs	\$1,998,981	\$325,000	\$6,019	-\$ 1,673,981	-83.74%
Legal Costs	\$166,785	\$260,260	\$4,820	\$93,475	56.04%
Capitalized Reserves	\$634,341	\$499,804	\$9,256	-\$134,537	-21.21%
Permits and Local Fees	\$750,936	\$1,230,894	\$22,794	\$479,958	63.91%
Developer Fee	\$4,281,539	\$2,500,000	\$46,296	-\$ 1,781,539	-41.61%
Other Project Costs	\$1,752,331	\$2,458,554	\$45,529	\$706,223	40.3%
<b>TOTAL</b>	<b>\$34,827,111</b>	<b>\$39,079,968</b>	<b>\$723,703</b>	<b>\$ 4,252,857</b>	<b>12.21%</b>

Ann Sewill, General Manager  
Tricia Keane, Executive Officer

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## City of Los Angeles



LOS ANGELES HOUSING DEPARTMENT  
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**Karen Bass, Mayor**

### **Marcella Gardens Staff Report**

#### Recommended Loan

The total loan increase being recommended for Marcella Gardens, is \$2,575,000 for a total revised loan amount of \$14,575,000. The revised LAHD loan amount will represent a cost of \$242,917 per restricted unit and 39.21% of the total development cost. In addition, \$232,797 in accrued LAHD construction period interest is being deferred. The LAHD funds are leveraged primarily by equity proceeds from the sale of 4% Low Income Housing Tax Credits (LIHTCs) and the other permanent funding sources outlined below.

#### Project Description

Marcella Gardens (Project), located at 6714 S Main St, in Council District 9 and developed by Coalition for Responsible Community Development (CRCDD), is a new construction project consisting of 60 residential units serving homeless and chronically homeless individuals and families. The unit breakdown is as follows: 29 studios, 30 one-bedroom units, and 1 two-bedroom manager's unit.

Marcella Gardens LP holds the project's site control via grant deed. CRCDD LLC, New Economics for Women (NEW), Amity Project 68th Street LLC and CRCDD Partners LLC are the joint Sponsor and Developer of Marcella Gardens, L.P. The project is currently under construction and expects to complete construction in January 2024. The addition of the Fast Track funds will allow the project to meet its anticipated completion date.

#### Project Eligibility

Marcella Gardens meets the following criteria:

1. Marcella Gardens has an LAHD HHH funding commitment, an allocation from the California Debt Limit Allocation Committee (CDLAC), California Tax Credit Allocation Committee (CTCAC), Los Angeles County Development Authority (LACDA), Housing Authority of the City of Los Angeles (HACLA).
2. Marcella Gardens does not have any loans that have converted to permanent financing.
3. Marcella Gardens has demonstrated that the construction will be completed by the placed-in-service deadline.
4. CRCDD is deferring 50% of their developer fee.

#### Project's Cost Increase

Since the project received its initial HHH funding award from LAHD in April of 2020 there have been a number of key factors that have contributed to an increase in the project's budget including:

*Los Angeles Department of Water and Power (LADWP) delays:* LADWP promised power to the project in July 2022 but then extended this date to November 2022. To date the project has yet to receive power and this unanticipated delay has prevented completion of other final construction work. Electrical Service Requirements (ESR) work is to be inspected by the LADWP ESR representative. In regard to Marcella Gardens, per the General Contractor, the ESR has indicated he is ready to release the meter but is waiting for the LADWP to reflect the off-site work as completed. There is an internal

systems delay within LADWP where the information of the work being completed, is not immediately entered into their online system.

*Increased soft costs and other costs due to delayed construction schedule:* Due to the construction delays noted above and below, the project incurred additional consultant fees and will incur additional softs costs such as architect construction administration, construction management, insurance premiums, and inspector fees.

*Higher construction loan interest:* The interest reserve was depleted much faster than anticipated. The interest reserve for the construction loan was sized assuming an interest rate of 3.6%. The interest rate has increased consistently for several months and now stands at 7.42%. The 15-month delay in construction completion is compounding the problem by increasing the shortfall. The project will need to pay additional construction loan interest from what was originally budgeted.

*Perm loan rate lock adjustment fee and perm loan gap:* Based on the delayed timeline, the project will need to extend the loan term and will be subject to a 0.25% rate lock adjustment fee. Additionally, the perm loan interest rate will need to be repriced to further extend the permanent loan conversion date. This permanent loan extension will reduce the amount of the permanent loan that was committed to the project at construction closing in Dec of 2020.

#### Attempts to Offset Project's Cost Increase

Marcella Gardens has exhausted all supplemental funding options, in this case, the project received additional funds from the following sources:

- a. Affordable Housing Program (AHP) loan from the Federal Home Loan Bank of San Francisco
- b. Supplemental Bonds

Even with these additional funds, the project requires an additional \$2,575,000 to convert to permanent financing and become fully operational.

#### Priority

The date scheduled to be placed-in-service for Marcella Gardens is February of 2024. In order to ensure that this timeline is met, it is critical that the project not incur any more construction delays. By providing supplemental funds to close the project's financial gap, the project will meet its placed-in-service deadline.

*(The project's financials follow this report)*

Construction Sources

<b>Construction</b>	<b>Construction Closing (Nov 2020)</b>	<b>Revised Source</b>	<b>Revised Sources/Unit</b>	<b>\$ Variance</b>	<b>% Variance</b>
LAHD HHH	\$ 6,800,000	\$ 6,800,000	\$ 113,333	\$ -	0.00%
LAHD Supplemental	\$ -	\$ -	\$ -	\$ -	N/A
LAHD Deferred Interest	\$ 200,000	\$ 232,797	\$ 3,880	\$ 32,797	16.40%
Construction Loan	\$ 15,900,000	\$ 17,900,000	\$ 298,333	\$ 2,000,000	12.58%
LACDA - NPLH	\$ 6,390,000	\$ 6,240,000	\$ 104,000	\$ (150,000)	-2.35%
Deferred Costs	\$ 760,631	\$ 979,690	\$ 16,328	\$ 219,059	28.80%
GP Bridge Loan	\$ -	\$ 1,537,183	\$ 25,620	\$ 1,537,183	N/A
Def Dev Fee	\$ 1,581,107	\$ 1,750,000	\$ 29,166	\$ 168,893	10.68%
GP Equity	\$ 100	\$ 100	\$ 2	\$ -	0.00%
LIHTC Equity	\$ 982,417	\$ 1,732,416	\$ 28,874	\$ 749,999	76.34%
<b>TOTAL</b>	<b>\$ 32,614,255</b>	<b>\$ 37,172,186</b>	<b>\$ 619,536</b>	<b>\$ 4,557,931</b>	<b>13.98%</b>

Permanent Sources

<b>Permanent</b>	<b>Construction Closing (Nov 2020)</b>	<b>Revised Source</b>	<b>Revised Sources/Unit</b>	<b>\$ Variance</b>	<b>% Variance</b>
Perm Loan	\$ 4,350,000	\$ 4,350,000	\$ 72,500	\$ -	0.00%
LAHD HHH	\$ 12,000,000	\$ 12,000,000	\$ 200,000	\$ -	0.00%
LAHD Supplemental	\$ -	\$ 2,575,000	\$ 42,917	\$ 2,575,000	N/A
LAHD Deferred Interest	\$ -	\$ 232,797	\$ 3,880	\$ 232,797	N/A
LACDA – NPLH	\$ 6,440,000	\$ 6,440,000	\$ 107,333	\$ -	0.00%
Def Dev Fee	\$ -	\$ 1,250,000	\$ 20,833	\$ 1,250,000	N/A
GP Equity	\$ 100	\$ 100	\$ 2	\$ -	0.00%
LIHTC Equity	\$ 9,824,155	\$ 10,324,288	\$ 172,071	\$ 500,134	5.09%
<b>TOTAL</b>	<b>\$ 32,614,255</b>	<b>\$ 37,172,186</b>	<b>\$ 619,536</b>	<b>\$ 4,557,931</b>	<b>13.98%</b>



Uses

Uses of Funds	Construction Closing (Nov 2020)	Revised Uses	Revised Uses/Unit	\$ Variance	% Variance
Acquisition Costs	\$ 4,254,228	\$ 4,337,610	\$ 72,294	\$ 83,382	1.96%
Construction Hard Costs	\$ 19,015,431	\$21,469,788	\$ 357,830	\$ 2,454,357	12.91%
Architecture & Engineering	\$ 1,257,678	\$ 2,096,369	\$ 34,939	\$ 838,691	66.69%
Construction Interest Fees/ Expenses	\$ 1,405,363	\$ 2,810,382	\$ 46,840	\$ 1,405,019	99.98%
Permanent Financing Costs	\$ 47,607	\$ 47,607	\$ 793	\$ -	0.00%
Total Hard & Soft Contingency Costs	\$ 1,378,540	\$ 122,682	\$ 2,044	\$ (1,255,858)	-91.10%
Legal Costs	\$ 160,000	\$ 160,000	\$ 2,667	\$ -	0.00%
Capitalized Reserves	\$ 917,144	\$ 979,690	\$ 16,328	\$ 62,546	6.82%
Permits and Local Fees	\$ 665,000	\$ 876,302	\$ 14,605	\$ 211,302	31.77%
Developer Fee	\$ 2,500,000	\$ 2,500,000	\$ 41,667	\$ -	0.00%
Other Project Costs	\$ 1,013,264	\$ 1,771,756	\$ 29,529	\$ 758,492	74.86%
<b>TOTAL</b>	<b>\$ 32,614,255</b>	<b>\$37,172,186</b>	<b>\$ 619,536</b>	<b>\$ 4,557,931</b>	<b>13.98%</b>

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Anna E. Ortega, Assistant General Manager  
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## City of Los Angeles



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**Karen Bass, Mayor**

### **Palm Vista Apartments Staff Report**

#### Recommended Loan

The total loan increase being recommended for Palm Vista is \$1,400,000 for a total revised CRA loan amount from \$1,300,000 to \$2,700,000. The revised LAHD loan amount will represent a cost of \$30,337 per restricted unit and 5.2% of the total development cost. The LAHD funds are leveraged primarily by equity proceeds from the sale of 4% LIHTCs and the other permanent funding sources outlined below.

Palm Vista Apartments (“the Project”) has exhausted all supplemental funding options available to them. The Project has received the following funds in addition to City CRA funds from the following sources:

- a. Affordable Housing Program loan from the Federal Home Loan Bank of San Francisco (FHLB – AHP)
- b. LA County No Place Like Home (LA Co NPLH)
- c. LA County Affordable Housing Trust Fund (LA Co AHTF)
- d. State HCD – IIG
- e. State HCD - MHP

The Project requires the additional \$1,400,000 to supplement the budget, convert to permanent financing, and become fully operational. The supplemental permanent loan, additional deferred fee, and increased LAHD loan will enable the project to convert to permanent financing and allow for the operation of the Project to continue.

#### Project Description

Palm Vista Apartments is located at 20116-20128 Sherman Way, Los Angeles, CA 91306, in Council District 3 and developed by Hollywood Community Housing Corporation (“HCHC”) with GTM Holdings, LLC (“GTM”), is a new construction project consisting a total of 91 units, 89 of which are affordable units. Fifty-eight (58) of the units are one-bedroom units at or below 50% AMI and thirty-one (31) of the units are two-bedroom units at or below 50% AMI. The remaining two (2) units are two-bedroom units reserved for managers.

The project completed construction in August 2023.

#### Project Eligibility

Palm Vista Apartments meets the following criteria:

1. Palm Vista Apartments has an allocation from the California Tax Credit Allocation Committee (“CTCAC”), a loan from the Community Redevelopment Agency of the City of Los Angeles (“CRA/LA”), a loan from the Federal Home Loan Bank of San Francisco (“FHLB AHP”), a State Department of Housing and Community Development (“HCD”) Infill Infrastructure Grant (“HCD IIG”), a loan from the Multifamily Housing Program (“HCD MHP”), a loan from the County of Los Angeles Affordable Housing Trust Fund (“AHTF”) program, and a loan from the County of Los Angeles No Place Like Home program (“NPLH”);
2. Palm Vista Apartments does not have any loans that have converted to permanent financing;
3. Palm Vista Apartments has demonstrated that the construction will be completed by the placed-in-service deadline;
4. HCHC and GTM (“the developer”) are deferring more than 50% of their developer fee.

### Project's Cost Increase

Since the Project received its initial CRA/LA funding approval from the City Council and Mayor in June of 2021 there have been two key factors that have contributed to an increase in the project's budget including:

*Higher Construction Loan Interest:* 69% (\$1.8MM) of the Project's cost overrun is due to increased interest rates. Since closing, the Project's construction loan interest rate has increased from 3.3% at construction closing to 7.89% as of August 2023. The Project will need to increase the original budget to pay the additional construction loan interest.

*Materials Cost Increases:* Rapid and unexpected increases in the price of construction materials have impacted the Project budget. Early in the construction phase the Project received a \$900,000 change order for lumber due to price escalations during COVID, which accounted for 59% of the total hard cost contingency. The remainder of cost increases related to materials (aside from lumber costs) have been the result of change orders occurring over the normal course of construction. The combined aggregate change orders have left no excess funds available to allocate to the funding gap

### Attempts to Offset Project's Cost Increase

The Developer took the following steps to minimize the impact of the Project's increase in development costs:

- a) The developer closely managed project hard costs (which accounts for 60% of the TDC), maintaining the budget within 6% of original GC contract sum.
- b) The developer leveraged all available county and state sources that could be found when financing the project: Tax Credits, a loan from the FHLB AHP, a State HCD IIG grant, a loan from the HCD MHP program, a loan from the County AHTF program, and a loan from the County NPLH program.
- c) The developer sought unique local funding sources and worked with LAHD to identify CRA/LA funding that was geographically specific to fill the gap in the predevelopment phase. Consequently, Palm Vista received CRA/LA funding in the amount of \$1,300,000. In exchange for the CRA/LA funding, HCHC increased the number of affordable units. The original CRA/LA funding represented less than 3% of the TDC, with the additional LAHD funding, the revised LAHD loan represents just 5.2% of the revised TDC.
- d) The developer requested approval from LAHD to seek CDLAC Supplemental Bond Allocation to bridge the gap. However, was informed by LAHD that the project was not at risk of failing the 50% test, therefore LAHD would not support a Supplemental Bond request. Per LAHD staff, supplemental allocations are reserved for projects at risk of failing the 50% test.
- e) The developer pursued and secured \$700,000 in supplemental permanent loan funds from the Senior lender; The developer initially intended to extend the amortization period of the original mortgage as an additional source. However, the senior lender confirmed that the perm loan amortization period is locked, but a supplemental perm loan could be obtained instead. Preliminary underwriting determined that the project could support an additional \$700,000 in supplemental perm debt. It is important to note that the private supplemental loan funds do not completely bridge the funding gap, and an additional supplemental permanent loan would reduce the operating budget to below a comfortable or secure margin for a PSH building. Forty-four (44) out of the 89 restricted units are PSH, and it is the developer's experience that projects with a higher ratio of PSH units incur higher operating expenses.
- f) The developer contacted a Community Development Financial Institution "CDFI". The CDFI loaned HCHC \$1,500,000 to specifically cover predevelopment expenses for the Project. Consequently, the CDFI granted special approval to use the funds to cover a portion of the existing gap. The CDFI loan will need to be repaid at perm conversion (estimated to be May 2024). The CDFI loan has a 5.5% interest rate, which is more than 2% less than

the current construction loan rate. The developers immediately advanced the \$1,500,000 as a GP loan to complete construction and reduce the construction loan interest burden. The developer's intent for the GP loan is to leverage the amount to bump up the unpaid developer fee to create more basis and help cover some of the gap.

Priority

The project received the Temporary Certificate of Occupancy in August 30, 2023, and anticipates being placed-in-service early 2024. In order to ensure that this timeline is met, it is critical that the project secure a gap funding source in order to convert to permanent financing and operations. By providing supplemental city funds to close the project's financial gap, the project will meet its placed-in-service deadline.

*(The project's financials follow this report)*

Construction Sources

Construction	Construction Closing (July 2021)	Revised Source	Revised Sources/Unit	\$ Variance	% Variance
Construction Loan – BofA TE	\$ 25,000,000	\$ 25,000,000	\$ 274,725	\$ -	0%
Construction Loan – BofA Taxable	\$ 2,400,000	\$ 2,400,000	\$ 26,374	\$ -	0%
FHLB AHP	\$ 890,000	\$ 890,000	\$ 9,780	\$ -	0%
CRA/LAHD Supplemental	\$ 1,300,000	\$ 1,900,000	\$ 19,780	\$ 600,000	46.15%
State HCD-IIG	\$ 4,186,800	\$ 4,186,800	\$ 46,009	\$ -	0%
LA County NPLH	\$ 6,440,000	\$ 6,440,000	\$ 70,769	\$ -	0%
LA County AHTF	\$ 1,950,000	\$ 1,950,000	\$ 21,429	\$ -	0%
Deferred Costs	\$ 774,602	\$ 774,602	\$ 8,512	\$ -	0%
Def Dev Fee	\$ 1,629,466	\$ 2,336,621	\$ 25,677	\$ 707,155	43.40%
LIHTC Equity	\$ 4,398,382	\$ 4,398,382	\$ 48,334	\$ -	0%
Developer Loan/GP Advance	\$ -	\$ 1,500,000	\$ 16,484	\$1,500,000	100%
<b>TOTAL</b>	<b>\$ 48,969,250</b>	<b>\$ 51,776,405</b>	<b>\$ 568,972</b>	<b>\$2,807,155</b>	<b>5.73%</b>

Permanent Sources

Permanent	Construction Closing (July 2021)	Revised Source	Revised Sources/Unit	\$ Variance	% Variance
Perm Loan	\$ 6,300,000	\$ 7,000,000	\$ 76,923	\$ 700,000	.11%
FHLB AHP	\$ 890,000	\$ 890,000	\$ 9,780	\$ -	0%
CRA/LAHD Supplemental	\$ 1,300,000	\$ 2,700,000	\$ 29,670	\$ 1,400,000	107.69%
State HCD-IIG	\$ 4,186,800	\$ 4,186,800	\$ 46,009	\$ -	0%
State HCD-MHP	\$ 12,633,579	\$ 12,633,579	\$ 138,831	\$ -	0%
LA County NPLH	\$ 6,440,000	\$ 6,440,000	\$ 70,769	\$ -	0%
LA County AHTF	\$ 2,000,000	\$ 2,000,000	\$ 21,978	\$ -	0%
Def Dev Fee	\$ 557,597	\$ 1,264,752	\$ 13,898	\$ 707,155	126.82%
LIHTC Equity	\$ 14,661,274	\$ 14,661,274	\$ 161,113	\$ -	0%
<b>TOTAL</b>	<b>\$ 48,969,250</b>	<b>\$ 51,776,405</b>	<b>\$ 568,972</b>	<b>\$ 2,807,155</b>	<b>5.73%</b>

Uses

Uses of Funds	Construction Closing (July 2021)	Revised Uses	Revised Uses/Unit (91 units)	\$ Variance	% Variance
Acquisition Costs	\$ 7,315,000	\$ 7,290,670	\$ 80,117	\$ (24,330)	.33%
Construction Hard Costs	\$ 29,007,307	\$ 30,773,028	\$ 338,165	\$ 1,765,721	6.09%
Architecture & Engineering	\$ 1,336,660	\$ 1,333,258	\$ 14,651	\$ (3,402)	.3%
Construction Interest Fees/ Expenses	\$ 2,902,500	\$ 4,716,634	\$ 51,831	\$ 1,814,134	62.50%
Permanent Financing Costs	\$ 93,594	\$ 103,000	\$ 1,132	\$ 9,406	10.05%
Total Hard & Soft Contingency Costs	\$ 1,693,510	\$ -	\$ -	\$ (1,693,510)	100%
Legal Costs	\$ 195,000	\$ 290,267	\$ 3,190	\$ 95,267	48.85%
Capitalized Reserves	\$ 774,602	\$ 774,602	\$ 8,512	\$ -	0%
Permits and Local Fees	\$ 893,040	\$ 1,155,825	\$ 12,701	\$ 262,785	29.43%
Developer Fee	\$ 2,500,000	\$ 2,500,000	\$ 27,473	\$ -	0%
Other Project Costs (Holding, relocation, consultants, Monitoring, appraisal, marketing, other fees)	\$ 2,258,037	\$ 2,839,121	\$ 31,199	\$ 581,084	25.73%
<b>TOTAL</b>	<b>\$48,969,250</b>	<b>\$ 51,776,405</b>	<b>\$ 568,972</b>	<b>\$ 2,807,155</b>	<b>5.73%</b>

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**Karen Bass, Mayor**

### **Ruth Teague Homes Staff Report**

#### Recommended Loan

CRCD is requesting an additional \$2,720,000 to supplement the current allocation of \$7,180,000 for a total LAHD allocation of \$9,900,000 to complete the Ruth Teague Homes project located at 6706 S. Main St in council district 9. The revised LAHD loan amount will represent a cost of \$194,118 per restricted unit and 23.58% of the total development cost. In addition, \$363,867 in accrued construction period interest has been deferred. The LAHD funds are leveraged primarily by equity proceeds from the sale of 9% LIHTC in the amount of \$15,542,526 and the other permanent funding sources outlined below.

The developer, CRCD, successfully secured supplemental financing funds from the following sources:

- a. New Soft Loan from AHP in the amount of \$510,000.
- b. Utilization of company line of credit with Century Housing for interim construction financing to pay draws and replenishes interest reserves.
- c. Received new Permanent Loan from Citibank in the amount of \$9,380,000 replacing the California Bank and Trust Loan of \$8,600,000

Even with these additional funds, the project requires an additional \$2,720,000 from LAHD to complete construction, convert to permanent financing and become fully operational.

#### Project Description

Ruth Teague Homes was developed by Coalition for Responsible Community Development (CRCD) located at 67th & Main on a corner lot in the neighborhood of Florence in South Los Angeles. Ruth Teague Homes will provide 52 units of affordable housing to homeless families, homeless Transition Age Youth (TAY), and homeless military Veterans. Twenty-five (25) units have been set aside for those designated as Homeless and Twenty-six (26) units have been set aside for those designated as Chronically Homeless. The project is engineered as a three-story structure above one floor of parking. The residential units consist of 39 two-bedroom units (including one manager's unit) and 13 three-bedroom units of supportive housing for veterans and their families and for TAY families in need of long-term, comprehensive supportive services.

#### Project Eligibility

Ruth Teague Homes meets the following criteria:

1. Ruth Teague Homes has an LAHD HHH funding commitment, an allocation from the California Tax Credit Allocation Committee (CTCAC), an NPLH loan from LACDA, an SNHP loan from CalHFA and new perm sources from Citibank and AHP
2. Ruth Teague Homes does not have any loans that have converted to permanent financing.

3. CRCD is deferring 61% of their developer fee
4. Ruth Teague Homes has demonstrated completion of the project by the Placed in Service date.

#### Project's Cost Increase

The project has seen significant construction costs increases and delays since construction started, including:

*Hard Cost Escalation:* The cost of materials spiked during the time construction commenced around December of 2020. National supply chain issues drove up the cost of materials needed to build the project. The GC revised the construction budget significantly to factor the increase in the cost of materials, like lumber, steel and electrical components. The cost of materials increased by approximately \$2.2 Million.

- a) Applied for and awarded AHP funding in the amount of \$510,000 to supplement their Permanent Loan Sources.
- b) Received a new Perm Loan commitment from Citibank in the amount of \$9,380,000 which replaces the California Bank & Trust Permanent Loan commitment of \$8,600,000.
- c) They made the business decision to forgo the construction of a swimming pool at a project savings of \$625,167.
- d) They reviewed their General Contractor's Scope of Work and requested additional value engineering enhancements.

*Construction Loan Interest:* The impact in Construction Loan interest is twofold as described below:

- a) The variable interest rate of the construction loan from California Bank & Trust went up dramatically during the construction. The representative from California Bank and Trust acknowledged the impact of the interest costs towards the project and confirmed that the loan agreement provided no recourse for the developer to restructure the loan to escape from the volatile interest rate environment.
- b) The Construction Interest Fees went up by 120%. Originally projected at a cost of \$1,090,000, the interest cost increased to approximately \$2,400,000.

*Los Angeles Department of Water and Power:* During the time of the volatile interest rate environment, the LADWP was experiencing challenges with scheduling work resulting in a lengthy delay of commencing work on the Ruth Teague project by approximately 9 months. The delay in having the LADWP begin their work in powering the building forced the budget to be further out of balance from the carrying costs associated with the loan. The original work order by the LADWP was scheduled to be complete by November 24, 2022. This problem was a primary factor in negatively affecting the project's budget and timeline described below: Time delays in Construction have also increased their soft cost budget related to a steep increase in construction interest charges, construction monitoring, site management and Architectural and Engineering requirements. This caused the Certified Access Specialist (CASp) process to be extended longer than originally estimated. As a result, the delays further impacted the project as a result of construction financing carrying costs related to loan extension fees.

- a) On May 12, 2020, a LADWP Conduit Design and Construction Job was created.
- b) On August 19, 2021, the LADWP engineering deposit was paid in the amount of \$26,780.
- c) On April 6, 2023, nearly 20 months later, CRCD received the LADWP Authority to Bill letter in the amount of \$453,582 for the work order to be activated.
- d) The delay of LADWP required the developer to extend the project's Builders Insurance at a cost of approximately \$300,000. Building is energized as of August 31, 2023



Attempts to Offset Project Cost Increase:

- a) Increased Deferred Developer Fee from \$626,041 to \$1,352,629.
- b) Implementation of Value Engineering processes for the entire construction build up.
- c) Removed the construction of a swimming pool for an additional cost savings of \$625,167

Priority

The project's supplemental funding commitment from Citibank is contingent on evidence that CRCD is able to procure additional soft funding sources. The project is currently facing Tax Credit Negative Adjusters and needs the supplemental funding to complete the project and stop the Negative Adjusters from incurring. They face the prospect of having the General Contractor and subs submit mechanics liens for non-payment. Currently, the developer is using a line of credit to pay the GC and Subs, but the line of credit is almost exhausted.

*(The project's financials follow this report)*

Construction Sources

<b>Construction</b>	<b>Construction Closing (December 2020)</b>	<b>Revises Sources</b>	<b>Revised Sources/Unit</b>	<b>\$ Variance</b>	<b>% Variance</b>
LAHD HHH	\$ 7,180,000	\$ 7,180,000	\$ 138,077	\$ -	0.00%
LAHD Supplemental	\$ -	\$ 2,720,000	\$ 52,308	\$2,720,000	37.88%
Construction Loan	\$ 21,600,000	\$ 21,600,000	\$ 415,385	\$ -	0.00%
Century Housing	\$ -	\$ 718,000	\$ 13,808	\$718,000	100%
NPLH	\$ 3,950,000	\$ 3,950,000	\$ 75,962	\$ -	0.00%
CalHFA - SNHP	\$ 1,300,000	\$ 1,300,000	\$ 25,000	\$ -	0.00%
AHP	\$ -	\$ 510,000	\$ 9808	\$ 510,000	100%
Deferred Developer	\$ 1,307,948	\$ 1,492,637	\$ 28,705	\$ 184,689	14%
Deferred Reserves	\$ 899,867	\$ 899,867	\$ 17,305	\$ -	0.00%
9% Tax Equity	\$ 1,614,641	\$ 1,614,641	\$ 31,051	\$ -	0.00%
GP Equity	\$ 100	\$ 100	\$ 0	\$ -	0.00%
<b>TOTAL</b>	<b>\$ 37,852,556</b>	<b>\$ 41,985,245</b>	<b>\$ 807,409</b>	<b>\$ 4,132,689</b>	<b>10.92%</b>

Permanent Sources

<b>Permanent</b>	<b>Construction Closing (Dec 2020)</b>	<b>Revised Source</b>	<b>Revised Sources/Unit</b>	<b>\$ Variance</b>	<b>% Variance</b>
Permanent Loan	\$ 8,600,000	\$ 9,380,000	\$ 180,385	\$ 780,000	9%
LAHD HHH	\$ 7,180,000	\$ 7,180,000	\$ 138,077	\$ -	0.00%
LAHD Supplemental	\$ -	\$ 2,720,000	\$ 52,308	\$2,720,000	37.88%
LA County NPLH	\$ 4,000,000	\$ 4,000,000	\$ 76,923	\$ -	0.00%
CalHFA	\$ 1,300,000	\$ 1,300,000	\$ 25,000	\$ -	0.00%
AHP	\$ -	\$ 510,000	\$ 9808	\$ 510,000	100%
9% Tax Equity	\$ 16,146,415	\$ 15,542,526	\$ 305,086	\$ (603,889)	(-3.7%)
Def Dev Fee	\$626,041	\$ 1,352,619	\$ 24,193	\$ 726,578	116%
GP Equity	\$ 100	\$ 100	\$ N/A	\$ -	-
<b>TOTAL</b>	<b>\$ 37,852,556</b>	<b>\$ 41,985,245</b>	<b>\$ 807,409</b>	<b>\$ 4,132,689</b>	<b>10.92%</b>

Uses

Uses of Funds	Construction Closing (Dec 2020)	Revised Uses	Revised Uses/Unit	\$ Variance	% Variance
Acquisition Costs	\$ 3,780,424	\$ 3,259,710	\$62,687	\$ (511,255)	(14%)
Construction Hard Costs	\$23,763,930	\$25,870,848	\$ 548,18	\$ 2,106,918	9%
Architecture & Engineering	\$ 1,086,000	\$ 2,368,833	\$45,554	\$ 1,225,280	107%
Construction Interest Fees/ Expenses	\$ 1,090,000	\$ 2,387,890	\$45,921	\$ 1,129,554	120%
Permanent Financing Costs	N/A	\$ 418,878	\$ 8,055	\$ (75,557)	(71%)
Total Hard & Soft Contingency Costs	\$ 1,503,684	\$ 207,258	\$ -	\$ -	0%
Legal Costs	\$ 160,000	\$ 55,000	\$ 1,058	\$ 105,000	65%
Capitalized Reserves	\$ 899,867	\$ 899,867	\$ 17,305	\$ -	0%
Permits and Local Fees	\$ 1,809,133	\$ 1,800,966	\$ 34,634	\$ ( 8,167)	(.045%)
Developer Fee	\$ 2,200,000	\$ 2,200,000	\$ 42,308	\$ -	0%
Other Project Costs	\$ 1,559,518	\$ 2,723,253	\$ 52,370	\$1,163,735	75%
<b>TOTAL</b>	<b>\$37,852,556</b>	<b>\$ 41,985,245</b>	<b>\$807,409</b>	<b>\$4,132,689</b>	<b>10.9%</b>

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**Karen Bass, Mayor**

### **Southside Senior Housing**

#### Recommended Loan

The total loan increase being recommended for Southside Senior Housing (Project) is \$2,300,000 for a total revised loan amount of \$11,520,000. The revised Los Angeles Housing Department (LAHD) loan amount will represent a cost of \$235,102 per restricted unit and approximately 31% of the total development cost. The LAHD funds are leveraged primarily by equity proceeds from the sale of 4% Low Income Housing Tax Credits (LIHTC) equity and the project's permanent loan.

The borrower has exhausted all supplemental funding options. In this case, the project received additional funds from the following sources:

- a. The borrower attempted to fill the funding gap by applying to the California Debt Limit Allocation Committee (CDLAC) for supplemental bonds in August of 2022. CDLAC awarded the supplemental bonds in the amount of \$279,000. However, the senior lender and tax investor ultimately decided not to approve the loan increase because the bond issuance costs would exceed 50% of the award, netting only \$140,000 to cover additional project costs;
- b. The borrower plans to apply for Affordable Housing Program (AHP) funds in March of 2024 in the amount of \$750,000. In the event the award is received, the borrower will reduce the LAHD supplemental loan by that same amount. Notification of the awards is anticipated in June of 2024.

#### Project Description

Southside Senior Housing will be the new construction of 49 affordable units and one manager unit. The proposed new construction (Type V) project will be developed on .82 acres with frontage on Manchester Blvd. and will provide housing for low-income senior households and homeless seniors. The modern designed urban infill project will have approximately 36,000 square feet of residential and commercial space, which will be located on the ground floor of the parking garage. The project will be comprised of 20 studios and 30 one-bedroom units located in a 5-story building. Via a lease agreement, the project will be built on 6 parcels owned by Southside Church of Christ. The property is within 135 feet of a bus stop and there is a total of three (3) bus stops within 1,000 ft. of the property. In addition, the subject site is located near parks, medical offices and a pharmacy, which will serve the senior residents. The project was awarded 36 Project Based Vouchers, which will be used to cover rents for formerly homeless seniors. The construction work is about 43% complete and is expected to be completed by the end of August 2024.

#### Project Eligibility

Southside Senior Housing meets the following criteria:

1. The borrower has an executed loan (C-140388) from LAHD and the bonds awarded from CDLAC have been issued. All other needed funding sources have been secured with the exception of the requested amount listed above.

2. Southside Senior Housing does not have any loans that have converted to permanent financing;
3. Southside Senior Housing has demonstrated that the construction will be completed by the June 2024 placed-in-service deadline; and
4. The developer, John Stanley, Inc., is deferring 63% of their developer fee.

#### Project's Cost Increase

Since the project closed on its construction financing in June of 2022 there have been a number of key factors that have contributed to an increase in the project's budget including:

*Preparation of the site:* The project's construction financing closing date was June of 2022 and a Notice to Proceed was issued by LAHD on July 7, 2022. During July thru November the project remained on schedule. All demolition, grading and utility work was completed. Upon receiving the Notice to Proceed, the contractor began mobilizing. This included installing security fencing, temporary power and utility disconnects. The demolition of on-site streetlights, masonry walls and existing asphalt, including testing of the asphalt parking lot for contaminants, were all completed first. Mass grading of the site started on approximately September 9th and was completed on October 14th. Soil slot cutting and backfill was completed on approximately November 1st. The foundations for the two- and three-story podiums commenced upon pad certifications and excavations for the concrete columns commenced. In addition, structural reinforcing (rebar) was installed in the column footings. November 7th was the first major rainfall event. Due to the rainfall, the excavation work could not continue since the footings were not able to meet the required compaction. In order to overcome this issue, the contractor was advised to over excavate the foundations and place concrete sub slabs. All of this work was an additional requirement due to the rain. In order to place the concrete sub slabs, the installed rebar had to be pulled out, cleaned, and then reinstalled as directed by the engineer of record. This site has non-permeable clay soils which was very difficult to work with, as it was wet and had no bearing capacity. The contractor had to constantly pump rainwater out of the foundations and had to haul off the water in tankers (the water could not be pumped onto the streets).

*Construction costs:* The rain continued for five (5) months, and the developer was finally able to pour the concrete footings at the end of March 2023. As a result, the construction schedule was pushed back five (5) months. Also, the project is subject to Commercial Prevailing Wages due to being a 5-story building. The new construction completion date is May of 2024 per the contractor's construction schedule. The following are costs directly related to the schedule:

- a. Contingency (increased construction costs) \$1,293,189.00
- b. Architectural and Engineering Costs \$1,643,000.00
- c. Fees, Permits and Utilities \$527,000.00
- d. Construction Loan Interest (Tax Exempt + Taxable) \$2,094,265.00

*Construction financing:* Interest rates are now at 7% and 8% for the tax-exempt and taxable construction loans, significantly higher than when the project closed construction in 2022.

#### Attempts to Offset Project's Cost Increase

The developer took the following steps to minimize the impact of the Project's increase in development costs:

- a) The developer deferred 63% of their developer fee to operations.
- b) The developer managed to reduce construction costs by approximately \$279,000 by working with their contractor and architect to redesign several different elements of the project to compensate for the lost bond allocation.
- c) They have also renegotiated some of the contracts with consultants to reduce soft costs resulting in a savings of about \$100,000.

- d) The borrower has requested rate reduction relief from the senior lender and an increase in the tax credit pricing to no avail. The lender denied both requests.

Priority

In order to ensure that the placed in service deadline is met, it is critical that the project not incur any more construction delays. By providing supplemental funds to close the project's financial gap, the project will meet its placed-in-service deadline.

*(The project's financials follow this report)*

Construction Sources

<b>Construction</b>	<b>Construction Closing (June 2022)</b>	<b>Revised Source</b>	<b>Revised Sources/Unit</b>	<b>\$ Variance</b>	<b>% Variance</b>
Construction Loan – R4 Capital Funding	\$ 15,120,422	\$ 15,120,422	\$ 302,400	\$ 0	0%
Taxable Construction Loan – R4 Capital Funding	\$ 2,988,665	\$ 4,790,000	\$ 95,800	\$ 1,801,335	60.27%
LAHD HHH Loan	\$ 7,802,686	\$ 7,897,633	\$ 157,953	\$ 94,947	1.21%
LAHD Supplemental	\$ -	\$ 2,300,000	\$ 46,000	\$ 2,300,000	N/A
Southside Church Equity	\$ 3,285,000	\$ 3,285,000	\$ 65,700	\$ 0	0%
Deferred Op Deficit Reserve	\$ -	\$ 437,607	\$ 8,752	\$ 437,607	N/A
Costs Deferred to Perm	\$ 2,668,090	\$ -	\$ -	-\$2,668,090	N/A
GP Equity	\$ -	\$ 100	\$ 2	\$ 100	N/A
Def Dev Fee	\$ -	\$ 2,102,604	\$ 45,052	\$ 2,102,604	N/A
LIHTC Equity	\$ 2,784,224	\$ 1,324,701	\$ 26,494	-\$ 1,459,523	- 52.42%
<b>TOTAL</b>	<b>\$ 34,649,087</b>	<b>\$ 37,257,645</b>	<b>\$ 745,153</b>	<b>\$ 2,608,558</b>	<b>7.53%</b>

Permanent Sources

<b>Permanent</b>	<b>Construction Closing (June 2022)</b>	<b>Revised Source</b>	<b>Revised Sources/Unit</b>	<b>\$ Variance</b>	<b>% Variance</b>
Perm Loan – U.S. Bank	\$ 8,190,000	\$ 8,248,000	\$ 164,960	\$ 58,000	<1%
LAHD HHH Loan	\$ 9,220,000	\$ 9,220,000	\$ 184,400	\$ -	0%
LAHD Supplemental	\$ -	\$ 2,300,000	\$ 46,600	\$ 2,300,000	N/A
Southside Church Equity	\$ 3,285,000	\$ 3,285,000	\$ 65,700	\$ -	0%
GP Equity	\$ -	\$ 100	\$ 2	\$ 100	N/A
Def Dev Fee	\$ 1,599,562	\$ 1,579,470	\$ 31,589	-\$ 20,092	-1.25%
LIHTC Equity	\$ 12,354,525	\$ 12,625,075	\$ 252,502	\$ 270,550	2.19%
<b>TOTAL</b>	<b>\$ 34,649,087</b>	<b>\$ 37,257,645</b>	<b>\$ 745,153</b>	<b>\$ 2,608,558</b>	<b>7.53%</b>

Uses

Uses of Funds	Construction Closing (June 2022)	Revised Uses 8.7.23	Revised Uses/Unit	\$ Variance	% Variance
Acquisition Costs	\$ 3,285,000	\$ 3,285,000	\$ 65,700	\$ 0	0%
Construction Hard Costs	\$ 22,680,061	\$22,659,604	\$ 453,192	-\$ 20,457	<-1%
Architecture & Engineering	\$ 1,185,000	\$ 1,730,000	\$ 34,600	\$ 545,000	45.99%
Construction Interest Fees/ Expenses	\$ 1,570,118	\$ 803,941	\$ 16,079	-\$ 766,177	-48.80%
Permanent Financing Costs	\$ -	\$ 97,263	\$ 1,945	\$ 97,263	N/A
Total Hard & Soft Contingency Costs	\$ 1,194,209	\$ 1,932,209	\$ 38,644	\$ 738,000	61.79%
Legal Costs	\$ 143,613	\$ 230,275	\$ 4,606	\$ 86,662	60.34%
Capitalized Reserves	\$ 436,127	\$ 437,108	\$ 8,742	\$ 981	<1%
Permits and Local Fees	\$ 650,000	\$ 577,000	\$ 11,540	-\$ 73,000	-11.23%
Developer Fee	\$ 2,500,000	\$ 2,500,000	\$ 50,000	\$ 0	0%
Other Project Costs	\$ 1,004,959	\$ 3,005,245	\$ 60,105	\$ 2,000,286	199.04%
<b>TOTAL</b>	<b>\$ 34,649,087</b>	<b>\$37,257,645</b>	<b>\$ 745,153</b>	<b>\$ 2,608,558</b>	<b>7.53%</b>



Ann Sewill, General Manager  
Tricia Keane, Executive Officer

Daniel Huynh, Assistant General Manager  
Anna E. Ortega, Assistant General Manager  
Luz C. Santiago, Assistant General Manager

## City of Los Angeles



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**Karen Bass, Mayor**

### **West Third Apartments Staff Report**

#### Recommended Loan

The total loan increase being recommended for West Third Apartments is \$1,364,216 for a total revised loan amount from \$10,291,998 to \$11,656,214. The revised LAHD loan amount will represent a cost of \$85,707 per restricted unit and 20% of the total development cost. In addition, \$1,701,140 in accrued LAHD construction period interest is being deferred. West Third Apartments has already received an HHH commitment and syndicated its allocation of 4% credits.

West Third Apartment has exhausted all supplemental funding options, in this case, the project received additional funds from the following sources:

- a. Permanent loan from Redstone
- b. Supplemental bonds
- c. Additional LIHTC equity proceeds from Aegon, due to increase in eligible basis and LIHTC credit rate
- d. Various gap financing loans and advances described below
- e. Deferred interest of subordinate loans

Even with these additional funds, the project requires an additional \$1,364,216 to complete construction, convert to permanent financing and become fully operational.

#### Project Description

West Third Apartments, located at 1900 West Third Street, Los Angeles, CA 90062. The West Third Apartments project is the conversion of an existing two-story motel built in 1996. The rehabilitation work has resulted in a total of 137 units comprising 136 affordable studio units and one two-bedroom manager's unit. The 136 units are for the homeless with priority for Veterans experiencing homelessness. The project amenities include security gates and fencing, secured on-site parking and a community room, on-site management, a laundry facility, elevator service, and counseling offices. Case management services will be provided by Step Up on Second Street, Inc. After almost four years of delays and challenges during construction. TCO was issued back in May 2023.

#### Project Eligibility

The West Third Apartments development meets the criteria outlined in the eligibility requirements as follows:

1. City Council approved LAHD funding commitments from one or more of the following programs: HHH, Affordable Housing Managed Pipeline, or Affordable Housing & Sustainable Communities Loans; as well as all required leveraging sources, including but not limited to allocations from the California Tax Credit Allocation Committee, California Debt Limit Allocation Committee, California Department of Housing & Community Development (HCD) such as Affordable Housing and Sustainable Communities (AHSC), Los Angeles County Development Authority, or Federal Home Loan Bank; West Third Apartments has already received an HHH commitment and syndicated its allocation of 4% credits.
2. Loans may not have converted to permanent financing; West Third Apartments has not converted to a permanent loan.

3. West Third Apartments has exhausted all funding options including deferral of \$1,435,000 which is 50% of its developer
4. West Third Apartments has closed and expended its construction loan. It has met its placed in-service deadline.

#### Project's Cost Increase

The current analysis is the change in cost from the supplemental bond application amounts to the current budget in July 2023. The following provides details as to drivers that have contributed to the increase in the project's budget.

*Construction Hard Costs:* There were additional construction cost overages, from late stages, part of the \$2.6 MM that was previously detailed. When the West Third Apartments were originally planned and approved, the building plans were reviewed and approved by the various City departments under the provisions of the "motel conversion ordinance". Given the delays in moving forward, when the project team finally sought permits to begin construction, it was revealed that there were several unpermitted units in the existing building that required permitting. The extra units triggered "the light housekeeping ordinance", and a significantly higher budget because of the increased construction scope. Further, certain items that would have been grandfathered were no longer permitted, so all systems in the building had to be upgraded. This prompted the need for new fire sprinklers in the building, and a significant upsizing of the water supply and waste lines. The light housekeeping code also created the need for trenching, saw cutting of floors, additional coring, labor, demolition of walls and increased expenses resulting from associated added materials costs. The costs associated with this significant change of scope resulted in approximately \$2,659,000.

*Architecture & Engineering:* There were additional architectural costs and engineering reports, late stages of the project.

*Construction Interest Fees-* There were additional interest costs added to the budget by the Limited Partner.

*Total Hard & Soft Cost Contingency* – additional contingency added by the Limited Partner. In LPA amendment analysis, due to increased perm loan projected interest and expenses adjusted for 2023 vs 2018 data.

*Other Project Costs* - There are three (3) items for the project's costs- additional furnishings of \$120,000 required for fully furnished units. Additional accounting and auditing costs for \$75,000 from Novogradac required to work on supplemental applications, awards, analysis of the 50% test and final cost certification and Supplemental Bond closing costs of \$327,000- adjusted for actual supplemental bonds closing costs, higher to due to lender fees and reserve requirement, plus additional legal fees and bond costs and interest costs.

#### Attempts to Offset Project's Cost Increase

The developer took the following attempts at reducing the budget gap:

- a) The development team has deferred developer fees of approximately \$1,435,000 to advance the project through construction.
- b) The general partner and co-developer (FFAH) has advanced \$2,677,000 of developer equity and loans over the last 2 years to enable the completion of construction and so that the mission of providing affordable housing for previously homeless Veterans can be accomplished, and so that a default can be avoided. In addition, the general partner and co-developer (SLC) has advanced \$1,694,000 since the start of construction in order pay soft costs and interest costs necessary for the project to continue.

- c) The General Contractor has reduced its overhead and profit and has advanced costs associated with subcontractor work in the amount of \$1,304,000 to keep the project construction moving when funding sources were not available. Without these advances from the developers and general contractor, the project would have stalled, not been able to achieve completion and ended up in default.
- d) The development team worked with the limited partner and investor to reduce adjusters. In addition, the limited partner advanced equity installments ahead of the original schedule to help get the projects to completion. In addition, the limited partner advanced funds for insurance and interest costs in the amount of \$300,000 to avoid default and non-compliance.
- e) The development team secured Supplemental Tax-Exempt Multi-Family Bonds in the amount of \$2,730,000 in an effort to meet the 50% test that was lacking due to the significant increases in construction and project financing expenses.
- f) Construction cost increases resulted in an eligible basis to increase and provide additional LIHTC equity to enable a narrowing of the gap that had resulted from the construction delays and increased financing costs.
- g) The developer has worked with the Lender to increase the permanent loan based on increased rents allowing the project to be able to sustain the increase in the Permanent Loan. The additional permanent loan proceeds will allow for relief of some of the gap in funding caused by the cost overruns. The current estimated increase in permanent loan is \$4,500,000.
- h) The development team is requesting that LAHD defer HHH interest in the amount of \$1,701,140 to offset part of the interest costs and reduce the gap in funding.

#### Partnership

Friendship for Affordable Housing, LLC (“FFAH”) is a member of West Third Apartments GP, LLC, Administrative General Partner (“AGP”) of West Third Apartments Preservation, LP. FFAH is pursuing acquisition of the 1% and 32.4% membership interest in AGP currently owned by Shangri-La Construction, L.P. (“SLC”), and AW Investment Holdings, LLC (“AWIH”), respectively (the “Acquisition”). The result of this Acquisition will be that FFAH becomes the sole member of AGP.

SLC and AWIH no longer wish to remain members of AGP. FFAH wishes to acquire the membership interest of SLC and AWIH, and FFAH, SLC and AWIH have already agreed in principle for the Acquisition to take place, pending obtaining all necessary consents to the Acquisition. As FFAH is already a member of AGP, no other outside parties would be admitted into the ownership structure as a result of the Acquisition. Pending Council approval, LAHD will provide additional funding only concurrent with or after the Acquisition.

#### Priority

The date for placing-in-service for West Third Apartment was August 2023 with achievement of TCO and HACLA approval of the units for move-in and HAP contract. In order to ensure that the timeline for payment of final construction costs and conversion is met, it is critical that the project not incur any more delays. Without providing additional funds to the project, the existing gap may cause the project to not be able to convert to a permanent mortgage and, become at risk of default, or have the construction loan mature which would subsequently result in default. It is therefore essential that West Third Apartments received \$1,364,215 so the project will meet its stabilization and conversion deadline. It’s estimated to perm convert in April 2024.

*(The project’s financials follow this report)*

Construction Sources

Construction	Supplemental Closing	Current 07/2023	Per Unit	\$ Variance	% Variance
Tax Exempt Bond Proceeds	\$23,000,000	\$23,000,000	\$169,117	\$ -	0%
LAHD HHH	\$10,291,998	\$10,291,998	\$ 75,676	\$ -	0%
Seller Note	\$ 790,000	\$ 790,000	\$ 5,808.	\$ -	0%
Deferred Developer Fee	\$ 2,598,875	\$ 2,598,875	\$ 19,109	\$ -	0%
Taxable Debt	\$ 4,000,000	\$ 4,000,000	\$ 29,411	\$ -	0%
Limited Partner Equity	\$ 5,349,981	\$ 5,349,981	\$ 39,338	\$ -	0%
Construction Period Cash Flow	\$ 1,059,714	\$ 574,844	\$ 4,226	\$ (484,870)	-46%
Costs Deferred During Construction	\$ 7,218,443	\$ 6,312,554	\$ 46,415	\$ ( 905,888)	-13%
LAHD Supplemental	\$ -	\$ 1,364,215.00	\$ 10,030	\$ 1,364,215.	N/A
Gap Financing	\$ 2,426,137	\$ 3,930,617.50	\$ 28,901	\$ 1,504,479	62%
<b>Total</b>	<b>\$56,735,148</b>	<b>\$58,213,085</b>	<b>\$428,031</b>	<b>\$1,477,936</b>	<b>3%</b>

Permanent Sources

Permanent	Supplemental Closing	Current 07/2023	Per Unit	\$ Variance	% Variance
Permanent Loan	\$22,440,000	\$22,400,000	\$164,705.	\$ (40,000)	0%
LAHD HHH	\$10,291,998	\$10,291,998	\$ 75,676	\$ -	0%
Seller Note	\$ 790,000	\$ 790,000	\$ 5,808	\$ -	0%
Seller Note Deferred Interest	\$ 139,692	\$ 157,606	\$ 1,158	\$17,914	13%
LAHD HHH Deferred Interest	\$ 1,546,337	\$ 1,701,140.00	\$ 12,508.38	\$ 154,803	10%
LAHD Supplemental	\$ -	\$ 1,364,215	\$ 10,030	\$ 1,364,215	N/A
Deferred Developer Fee	\$ 1,436,179	\$ 1,435,000	\$ 10,551	\$ (1,179)	0%
Limited Partner Equity	\$18,927,724	\$19,498,282	\$143,369	\$ 570,557	31%
Construction Period Cash Flow	\$ 1,160,640	\$ 574,844	\$ 4,226	\$ ( 585,796)	-51%
Gap Financing	\$ 2,578	0.00	\$0.00	\$ (2,578)	N/A
<b>Total</b>	<b>\$56,735,148</b>	<b>\$58,213,085</b>	<b>\$428,031</b>	<b>\$1,477,936</b>	<b>3%</b>

Uses

Uses of Funds	Supplemental Closing	Current 07/2023	Per Unit	\$ Variance	% Variance
Acquisition Costs	\$30,176,600	\$30,176,600	\$221,886	\$ -	0%
Construction Hard Costs	\$ 7,722,059	\$ 7,872,059	\$ 57,882	\$ 150,000	2%
Architecture & Engineering	\$ 387,850	\$ 449,850	\$ 3,307	\$ 62,000	16%
Construction Interest Fees/ Expenses	\$ 11,076,165	\$11,248,882	\$ 82,712	\$172,717	2%
Permanent Financing Costs	\$ 264,673	\$ 264,673	\$ 1,946	\$ -	0%
Total Hard & Soft Contingency Costs	\$ 250,000	\$ 527,000	\$ 3,875	\$ 277,000	111%
Legal Costs	\$ 591,837	\$ 591,837	\$ 4,351	\$ -	0%
Capitalized Reserves	\$ 1,008,828	\$ 1,303,047	\$ 9,581	\$ 294,219	29%
Other Project Costs	\$ 2,387,136	\$ 2,909,136	\$ 21,390	\$ 522,000	22%
Developer Fee	\$ 2,870,000	\$ 2,870,000	\$ 21,102	\$ -	0%
<b>Total</b>	<b>\$56,735,148</b>	<b>\$58,213,084</b>	<b>\$428,032</b>	<b>\$1,477,936</b>	<b>182%</b>

Ann Sewill, General Manager  
Tricia Keane, Executive Officer

Daniel Huynh, Assistant General Manager  
Anna E. Ortega, Assistant General Manager  
Luz C. Santiago, Assistant General Manager

## City of Los Angeles



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**Karen Bass, Mayor**

### **Western Avenue Apartments Staff Report**

#### Recommended Loan

The total loan increase being recommended for Western Avenue is \$804,761 for a total revised loan amount of \$5,464,794. The revised LAHD loan amount will represent a cost of \$165,600 per restricted unit and 4.98% of the total development cost. In addition, \$688,664 in accrued LAHD construction period interest is being deferred. Western Avenue Apartment has already received an HHH commitment and syndicated its allocation of 4% credits.

Western Avenue Apartment has exhausted all supplemental funding options, in this case, the project received additional funds from the following sources:

- a. Permanent loan from Redstone
- b. Seller Note

Even with these additional funds, the project requires an additional \$804,761 to complete construction, convert to permanent financing and become fully operational.

#### Project Description

Western Avenue Apartments is located at 5501 S. Western Avenue, Los Angeles, CA 90062. The Western Avenue Apartments development entails the rehabilitation of an existing motel that is comprised of two two-story buildings. The project amenities include a community room, laundry facilities, secured parking, onsite management, counseling offices, gated access, a communal kitchen, a manager's unit and a courtyard. The rehabilitation effort included green building technologies and materials and increased the overall energy efficiency of the building by 10%. The project provides 32 housing units for individuals experiencing homelessness/chronic homelessness and 1 manager unit, for a total of 33 units. Case management services are being provided by Step Up on Second Street, Inc., a California nonprofit corporation.

After 2 years of delays and challenges during construction, the project secured its Certificate of Occupancy ("CofO") on April 16, 2021, however, it has not been able to convert to permanent financing pending the award of funds recommended in this report.

#### Project Eligibility

The Western Avenue Apartments development meets the following criteria:

1. Western Apartments has an LAHD HHH funding commitment and an allocation from the California Tax Credit Allocation Committee (CTCAC).
2. Western Apartment does not have any loans that have converted to a permanent financing.
3. Western Apartments has demonstrated that the construction will be completed by the placed-in-service deadline
4. The developer is deferring 50% of their developer fee.

### Project's Cost Increase

Since the initial HHH funding award from LAHD in December 2018 there have been a number of key factors that have contributed to an increase in the project's budget. The Project has incurred overall cost overruns of \$ 4,772,705 which is 41% of the original budget.

*Increased financing costs related to substantial delays:* Though a notice to proceed was issued on March 2, 2020, a little over two weeks later, the City of Los Angeles issued the Safer at Home Emergency Declaration due to the outbreak of COVID-19. The order created extreme challenges for the project, its vendors, suppliers, and subcontractors. Staff was forced to socially distance themselves and work from home, when possible. Uncertainty about health risks, protocols, permitting and in-person meetings were among the many complicated factors that slowed down and ultimately drove up the cost of construction and created scheduling delays and labor shortage during the first and most critical part of the project. Concurrently, the delay resulting from the shutdown resulted in significant interest costs that were beyond the amount modeled and contemplated. Additional financing costs resulting from extension fees and carried interest expenses resulted in adding \$ 1,121,900 to the budget.

*Change in Scope of Work:* The Western Avenue Apartments project is a rehabilitation of an existing motel. As a result, the anticipated scope was rendered insufficient when the walls were opened, and further analysis was conducted post demolition. At the start of demolition, it was discovered that numerous repairs and modifications had been made to the existing plumbing by the prior owner. However, none of the repairs/modifications were according to code. For instance, there was an improper slope on the waste main, the water supply piping did not run outside of the walls and the waste lines were leaking. Until demolition and further analysis of the building had been conducted, there was no way to know of these plumbing issues. As a result, when construction began, most aspects of the plumbing failed, and it was discovered that the entire building needed to be re-plumbed and brought up to code. A total of \$306,526 was expended on the re-plumbing. Upon removal of the drywall, it was evident that there was "unconventional framing" used in the previous renovations/repairs of the motel. In order to bring existing conditions up to code as well as make it possible for the construction process to continue as described in the drawings, 95% plus of the drywall had to be removed as a result of MEP deficiencies which uncovered framing that did not meet code seismically or base standards of work. Also, certain units, the manager's office and community room required the layout of an existing space to be reworked. When the demo occurred, there was a sub standard structural condition that had to be remedied by adding new concrete footings and completely reframing walls. Furthermore, ductwork for the exhaust fans could not be run in a straight line as they had to be maneuvered through available spaces, because the joists were not running in the same direction. This increased the length of the runs. The necessary exhaust fans had to be changed because of the inconsistent joist spacing. HVAC was another large change order expense item that could not be foreseen at the time of closing. HVAC and framing change orders totaled \$245,951.

During the demolition process it was also discovered that most of the existing electrical systems were not up to code. For example, there were no sub-panels in the living units, the wiring was not run in the studs and was instead attached to 2x4's, the electrical wiring was installed between rough framing and drywall and not thru the drywall as per code, and the downstairs units were being fed from the unit above. This created a public safety/fire hazard, as such, all existing wiring was removed, and new wiring pulled. The inspector required that all deficient items be brought up to code and replaced with new wiring. Electrical change orders were thus significant and unable to be foreseen. The change orders through totaled \$285,323

Due to the unconventional construction methods used during prior repairs and renovations a substantial amount of demo (above and beyond the anticipated) was required. This included saw-cutting, removing and replacing the existing concrete subfloor. Moreover, it was discovered that a number of the upstairs units had asbestos contained within the floor tile which



had been covered with floor sheathing. The variance in this line item for all of these issues was approximately \$164,560. The total additional costs incurred in the changes in the scope of work was approximately \$1,002,360.

*Change in code and ordinance consideration:* When the Western Avenue Apartments originally planned and approved, the building plans were reviewed and approved by the various City departments under the provisions of the “motel” conversion ordinance”. Given the delays in moving forward, when the project team finally sought permits to begin construction, it was revealed that there were a number of unpermitted units in the existing building that required permitting. The extra units triggered” the light housekeeping ordinance”, and a significantly higher budget because of the increased construction scope. Further, certain items that would have been grandfathered were no longer permitted, so all systems in the building had to be upgraded. This prompted the need for new fire sprinklers to the building, and upsizing of the water supply and waste lines. The light housekeeping code also created the need for trenching, saw cutting of floors, additional coring, labor, demo of walls and increased expenses resulting from those added materials costs. The costs associated with this significant change of scope resulted in \$430,300.

#### Attempts to Offset Project’s Cost Increase

The developer took the following attempts at reducing the budget gap:

- a) The development team has deferred developer fees of approximately \$629,558 to advance the project through construction.
- b) The general partner and co-developer (FFAH & SLC) have advanced \$282,000 to developer equity and loans over the last 2 years to enable the completion of construction and so that the mission of providing affordable housing for previously homeless Veterans can be accomplished, and so that a default can be avoided.
- c) The General Contractor has reduced its overhead and profit and has advanced costs associated with subcontractor work in the amount of \$100,000 to keep the project construction moving when funding sources were not available. Without these advances from the developers and general contractor, the project would have stalled, not been able to achieve completion and ended up in default.
- d) The development team worked with the limited partner and investor to reduce adjusters. In addition, the limited partner advanced equity installments ahead of the original schedule to help get the projects to completion. In addition, the limited partner advanced funds for insurance and interest costs in the amount of \$61,000 to avoid default and non-compliance.
- e) The development team secured Supplemental Tax-Exempt Multi-Family Bonds in the amount of \$1,150,000 in an effort to meet the 50% test that was lacking due to the significant increases in construction and project financing expenses.
- f) The Supplemental Bonds also resulted in a higher tax credit rate which was able to provide additional LIHTC equity to enable a narrowing of the gap that had resulted from the construction delays and increased financing costs.
- g) The developer has worked with the Lender to project out an increase in permanent loan based on increased rents and NOI the project is expected to achieve. The additional permanent loan proceeds will allow for relief of some of the gap in funding caused by the cost overruns. The current estimated increase in permanent loan is \$58,000.

- h) The development team worked with subordinate lenders, to defer interest payment required on subordinate loans to offset part of the interest costs and reduce the gap in funding.

### Partnership

Friendship for Affordable Housing, LLC (“FFAH”) is a member of Western Avenue Apartments GP LLC, Administrative General Partner (“AGP”) of Western Avenue Apartments Preservation, LP. FFAH is pursuing acquisition of the 1% and 32.4% membership interest in AGP currently owned by Shangri-La Construction, L.P. (“SLC”), and AW Investment Holdings, LLC (“AWIH”), respectively (the “Acquisition”). The result of this Acquisition will be that FFAH becomes the sole member of AGP.

SLC and AWIH no longer wish to remain members of AGP. FFAH wishes to acquire the membership interest of SLC and AWIH, and FFAH, SLC and AWIH have already agreed in principle for the Acquisition to take place, pending obtaining all necessary consents to the Acquisition. As FFAH is already a member of AGP, no other outside parties would be admitted into the ownership structure as a result of the Acquisition. Pending Council approval, LAHD will provide additional funding only concurrent with or after the Acquisition.

### Priority

In order to ensure that this timeline is met, it is critical that the project not incur any more construction delays. By providing additional funds to the project, the existing gap may cause the project to not be able to convert to a permanent mortgage, and become at risk of default, or have the construction loan mature which would subsequently result in default. It is therefore essential that Western Avenue Apartments receive \$804,761, it is estimated to perm convert in February 2024.

*(The project’s financials follow this report)*

Construction Sources

<b>Construction</b>	<b>Construction Closing (May 2018)</b>	<b>Revised Sources</b>	<b>Revised Sources /unit</b>	<b>\$ Variance</b>	<b>% Variance</b>
Tax Exempt Bond Proceeds	\$ 5,800,000	\$ 5,800,000	\$175,757	\$ -	0%
LAHD HHH	\$ 4,660,033	\$ 4,660,033	\$141,213	\$ -	0%
Seller Note	\$ -	\$ 351,468	\$ 10,650	\$ 351,468	N/A
Deferred Developer Fee	\$ 49,346	\$ 1,034,477	\$ 31,347	\$ 985,131	1996%
Limited Partner Equity	\$ 931,000	\$ 1,445,085	\$ 43,790	\$ 514,085	55%
Construction Period Cash Flow	\$ -	\$ 202,815	\$ 6,145	\$ 202,815	N/A
Costs Deferred During Construction	\$ -	\$ 1,312,491	\$ 39,772	\$ 1,312,491	N/A
LAHD Supplemental	\$ -	\$ 804,761	\$ 24,386	\$ 804,761	N/A
Gap Financing - GP Loans	\$ -	\$ 551,954	\$ 16,725	\$ 551,954	N/A
<b>Total</b>	<b>\$ 11,440,379</b>	<b>\$ 16,163,084</b>	<b>\$489,790</b>	<b>\$ 4,722,705</b>	<b>41%</b>

Permanent Sources

<b>Permanent</b>	<b>Construction Closing (May 2018)</b>	<b>Revised Sources</b>	<b>Revised Sources/ Unit</b>	<b>\$ Variance</b>	<b>% Variance</b>
Tax Exempt Bond Proceeds	\$ 3,026,798	\$ 3,358,000	\$ 101,757	\$ 331,202	11%
LAHD HHH	\$ 4,660,033	\$ 4,660,033	\$ 141,213	\$ -	0%
Seller Note	\$ -	\$ 351,468	\$ 10,650	\$ 351,468	N/A
Seller Note Deferred Interest	\$ -	\$ 62,073	\$ 1,881.	\$ 62,073	N/A
LAHD HHH Deferred Interest	\$ -	\$ 688,664	\$ 20,868	\$ 688,664	N/A
LAHD Supplemental	\$ -	\$ 804,761	\$ 24,386	\$ 804,761	N/A
LP Loan	\$ -	\$ -	\$ -	\$ -	N/A
Deferred Developer Fee	\$ 650,216	\$ 629,558	\$ 19,077	\$ (20,658)	-3%
Limited Partner Equity	\$ 3,103,332	\$ 5,405,712	\$ 163,809	\$ 2,302,380	74%
Construction Period Cash Flow	\$ -	\$ 202,815	\$ 6,146	\$ 202,815	N/A
Gap Financing - GP Loans	\$ -	\$ -	\$ -	\$ -	N/A
<b>Total</b>	<b>\$ 11,440,379</b>	<b>\$ 16,163,084</b>	<b>\$ 489,790</b>	<b>\$ 4,722,705</b>	<b>41%</b>

Uses of Funds	Original 05/2018	Current 07/2023	Per Unit	\$ Variance	% Variance
Acquisition Costs	\$ 6,800,000	\$ 6,800,000	\$206,062	\$ -	0%
Construction Hard Costs	\$ 1,427,250	\$ 2,858,363	\$ 86,617	\$ 1,431,113	100.3%
Architecture & Engineering	\$ 218,500	\$ 335,112	\$ 10,154	\$ 116,612	53%
Construction Interest Fees/ Expenses	\$ 687,000	\$ 2,851,515	\$ 86,409	\$ 2,164,515	315%
Permanent Financing Costs	\$ 104,638	\$ 190,000	\$ 5,757	\$ 85,362	82%
Total Hard & Soft Contingency Costs	\$ 407,046	\$ 61,591	\$ 1,866	\$ (345,455)	-85%
Legal Costs	\$ 130,000	\$ 338,000	\$ 10,242	\$ 208,000	160%
Capitalized Reserves	\$ 215,982	\$ 268,147	\$ 8,126	\$ 52,165	24%
Other Project Costs	\$ 190,847	\$ 1,201,240	\$ 36,401	\$ 1,010,393	529%
Developer Fee	\$ 1,259,116	\$ 1,259,116	\$ 38,156	\$ -	0%
<b>Total</b>	<b>\$ 11,440,379</b>	<b>\$ 16,163,084</b>	<b>\$489,790</b>	<b>\$ 4,722,705</b>	<b>41%</b>