

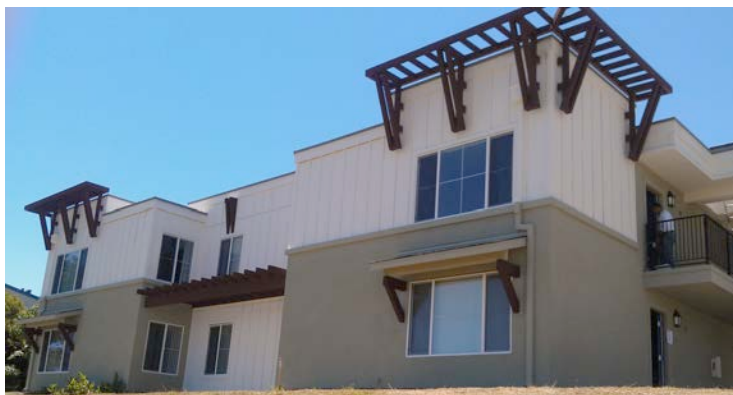


HOUSING PRESERVATION NEWS

Sunny Meadows: MidPen Housing Preserves 200 Affordable Homes in Santa Cruz County

Background

August 16th marks the Renovation Celebration for Sunny Meadows, a 200-unit, two-story, garden-style affordable apartment complex in the City of Watsonville. With 22 buildings spanning 14 acres, Sunny Meadows is one of the largest apartment complexes in Santa Cruz County and an important fixture in the Watsonville community. The complex was originally constructed in 1971 by a partnership of two churches that used a HUD 221(d)(3) mortgage and a Rent Supplement Contract to ensure affordability for 40 years. In 2010, the looming expiration of both the mortgage term and expiring Rent Supplement contract prompted the owners to seek out a purchaser that was committed to preserving affordability for existing and future residents.



Financing Challenges & Heroes

The owners entered into an Option Agreement with MidPen Housing Corporation (MidPen), in partnership with South County Housing, to acquire the property at a substantial discount – \$5,410,646 less than the market value – in part because of a HUD requirement that the selling price be based on the restricted rental value. In addition, they agreed to provide seller carry-back financing for \$4.6 million of the \$6.2 million purchase price. In June of 2010, MidPen acquired the property and assumed the HUD loan.

Voucher Conversion Challenges Create Early Stumbling Block

Upon acquiring the property, MidPen faced a nearly fatal financing challenge in March 2011 when they learned that their Rent Supplement contract had been terminated by HUD a full six months earlier than originally expected and the Housing Authority of the County of Santa Cruz had already issued the 200 Tenant Protection Vouchers (TPV's) for Sunny Meadows, a task that required tremendous time and energy since each resident had to go through income certification before being issued a voucher. Hoping to convert a percentage of the TPV's to project-based vouchers in order to leverage more debt, MidPen responded to the Housing Authority's September 2011 Project-based Vouchers Request for Proposals (RFP). Striking another big blow to the project, the Housing Authority denied the application.

City of Watsonville Contributes \$3.125 Million in Redevelopment Funds

Well-timed financial breakthroughs mitigated those setbacks, however. The City of Watsonville Redevelopment Agency (RDA) was a major player in the project's success, contributing a total of \$3.125 million at two critical stages in the financing plan. First, the city demonstrated a deep commitment early on by contributing an initial \$1.125 million to the project. Then in early 2011, after several unsuccessful attempts to secure HOME funding, MidPen shifted their strategy towards applying for 9% Low Income Housing Tax Credits (LIHTC). They

approached the city a second time to request additional funds, at which point the City committed an additional \$2 million towards the project. “We are extremely proud of our ability to partner with MidPen Housing to ensure that these units remain affordable for an additional 55 years,” said Jan Davison, Redevelopment and Housing Director at the City of Watsonville. “Unfortunately, due to the demise of redevelopment agencies, our ability to partner in future projects of this type is highly compromised as redevelopment was the sole dependable source of local affordable housing funds. As Sunny Meadows nears completion, my feelings are bittersweet since this is likely to be one of the last projects of this type in which the City can participate while the ongoing need continues.”

Wells Fargo Steps in with Private Capital

In 2011, with help from CHPC staff, MidPen successfully secured 9% Tax Credits. However, the California Supreme Court’s pending decision on redevelopment agencies’ dissolution and the resulting freeze caused some additional delays in closing financing for the property. Without the ability to make modifications to the RDA loan, one of the biggest and most difficult challenges MidPen faced was trying to find a lender. Ultimately, MidPen was able to get an extension from the California Tax Credit Allocation Committee (TCAC) and Wells Fargo stepped in as the permanent and construction lender. Wells Fargo was able to move quickly because they were involved as the equity investor from the beginning, and didn't have to start over on due diligence. “We have a long history of working with MidPen and we’re very proud of our partnership on Sunny Meadows,” said Lori Saito, Vice President of Community Lending and Investment at Wells Fargo. “We were under a time crunch, but with the combined efforts of MidPen, our equity team, and our loan administration staff, it was fairly easy for us to step in when we needed to.” With the extension granted by TCAC, MidPen closed the financing in March 2012, three months after the original readiness deadline.

SOURCES	Construction	Permanent
Wells Fargo Bank Debt	20,666,214	7,200,000
City of Watsonville	3,125,000	3,125,000
Existing Replacement Reserves	1,642,105	1,642,105
Income from Operations	414,216	414,216
Wells Fargo Bank - Tax Credit Equity	1,139,034	16,690,930
Deferred Developer Fee	108,835	108,835
TOTAL	27,095,404	29,181,086

USES	Construction	Permanent
Property Acquisition	6,200,000	6,200,000
Hard Costs	15,460,889	15,460,889
Relocation	1,500,000	1,500,000
Architecture & Engineering	310,000	310,000
Local Fees	60,000	60,000
Financing Fees & Interest	1,600,740	1,600,740
Legal	98,104	98,104
Reserves	-	734,502
Other Costs	1,115,671	1,216,851
Developer Fee	750,000	2,000,000
TOTAL	27,095,404	29,181,086

Relocation & Rehabilitation

Sunny Meadows is currently undergoing extensive rehabilitation of its 22 residential buildings, community spaces, and open areas. It is anticipated that the construction period will extend over a period of two years, with the first stage of units now completed and available for occupancy and the final renovations to be completed by December 2013. Residents whose buildings are currently under construction may continue to live at the development. Renovations include replacing all mechanical, electrical, and plumbing systems and increasing

energy efficiency with new windows and flooring. Kitchens will receive new cabinets, counters, appliances, and lighting. In addition, roofs will be replaced, solar photovoltaic arrays will be installed, trim will be updated, and building facades will be completely altered, transforming the look of the property. Residents will enjoy a community room with kitchen, a computer lab, onsite laundry facilities, and a large outdoor community area with playgrounds. MidPen Resident Services also provides a number of programs for residents including an after school program, educational classes, and community development programs.

Who Benefits

Sunny Meadows will target low-income families earning between 30% and 60% of the Area Median Income (AMI), three-quarters of whom have called Sunny Meadows home for some time. According to MidPen, part of the reason that so many of the existing residents chose to remain at Sunny Meadows instead of taking their Tenant Protection Vouchers and moving off site is the strong sense of community they have developed with their neighbors. When complete, the residents of Sunny Meadows will enjoy the enhanced amenities and on-site services of their renewed affordable homes for years to come.

Type	No.	Size Units (SF)	Rent Range
Studio	24	440	\$469-\$686
1 BR	32	625	\$459-\$810
2 BR	64	784	\$583-\$966
3 BR	64	896	\$641-\$1029
4 BR	16	1150	\$677-\$1090
TOTAL	200	--	\$469-\$1090

PRESERVATION SERVICES FOR NONPROFIT AND LOCAL GOVERNMENT STAFF

CHPC provides technical assistance, and training to help nonprofit and government agencies build and preserve affordable homes for California families and seniors. For more information, please contact our Housing Preservation Manager, Nadia Shihab at nshihab@chpc.net or 415-433-6804 x 316, or our Housing Policy Manager, Marilyn Wacks at mwacks@chpc.net or 415-433-6804 x 313.

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