

9% lihtc application narrative



Project Name: Clarion Place Apartments

Project Address: 628-660 East Clarion, Pueblo West, Colorado

Why this project should be funded

Renovation of Clarion Place Apartments in Pueblo West will preserve existing large family units in an increasingly tight rental market. Improvements will assure that the development has the features and upgrades necessary to provide competitive, livable units well into the future. In addition, the project will allow for the introduction of a qualified developer into the rural Southern Colorado market. While it is difficult to find skilled developers to develop small projects in rural markets, it is the intent of Rural Housing Properties, LLC to accumulate a large portfolio of small developments in neighboring communities to gain sufficient mass to effectively manage this type of portfolio.

Project Summary

Rural Housing Properties, LLC, the applicant/sponsor. Is requesting an allocation of 9% Low Income Housing Tax Credits in the amount of \$ 239,331 to help in the acquisition/rehabilitation of 24 affordable apartments in the Pueblo West, Colorado. The developer of Clarion Place Apartments is proposing to acquire and renovate this development along with West Park Apartments in Canon City in order to preserve and maintain the small portfolio of affordable housing projects in rural southern Colorado. In addition, upgrades will allow for the inclusion of two fully accessible unit to allow us to better serve the population in need of that type of unit. Clarion Place Apartments is an existing 15 year old 24 unit LIHTC development located in Pueblo West. Pueblo and Pueblo West have an extremely tight rental markets for affordable housing. As the market attached market study indicates the affordable units in the PMA have a 1.9% vacancy rate. The acquisition/rehabilitation will not increase the inventory of units, but will preserve quality affordable units for the community.

Location

The property is located one quarter mile south of Highway 50 West and one quarter mile west of Purcell Boulevard in Pueblo West which is located 5 miles west of the City of Pueblo. The property is less than one half mile from the Pueblo West commercial district, which offers a host of services, shopping, amenities and employment resources that occupants need in order to remain comfortable in their units. Residents of Clarion Place are within one mile of the shopping, banking, employment, services, hike/bike trail system, an Elementary School and several community parks. The neighborhood is predominately single family homes and duplexes, making this a great location for families.

Site

The project consists of twelve duplexes located on a 2.5 acre site. The site is essentially flat, with excellent soil conditions. The site has average visibility in that it is located in a predominately single family/deplex neighborhood, however, due to the quiet, relaxed atmosphere it is an excellent location for a family development. Access is from independent 2 car off-street parking on to East Clarion

Population Served

Clarion Place Apartments has historically served small/large families with incomes at 40 and 50% of area median income. If the proposal is approved it is the intent of the developer to expand the income range to 40 to 60% of area median income to serve a broader spectrum of the affordable housing market, while still maintaining affordable rents. Those residents that are currently residing in the units will have rents based on existing AMI levels and higher level AMI rent increases will be secured through attrition.

Unit/Income Mix

Clarion Place Apartments will serve a diverse mix of income levels. The following is a detailed breakdown:

| Unit Type | % AMI | # of Units | Net Rent |
|-----------|-------|------------|----------|
| 3 Bedroom | 40% | 4 | \$ 556 |
| 3 Bedroom | 50% | 6 | \$ 696 |
| 3 Bedroom | 60% | 14 | \$ 750 |

50 and 60% rent levels are less than the maximum allowable LIHTC rent levels.

Construction/Design Summary

Rural Housing Properties, LLC has worked with our design/build team to create a renovation plan that will help us provide quality affordable housing at a reasonable price and still allows for the improvements necessary to assure a high quality of living. The units original design was an efficient, comfortable floor plan. Improvements will primarily be to upgrade older features like cabinets and floor coverings, installing in unit laundry hookups, but also to increase energy efficiency by replacing appliances, windows, doors, light fixtures, plumbing fixtures and faucets, major mechanical systems and landscape improvements. Two units will also be made fully accessible to better allow us to provide housing to an underserved portion of the community's population.

Green Building and Energy Efficiency Measures

Rural Housing Properties, LLC will employ cost effective green building measures, and the project will excel the baseline standard for Green Communities. Specific features will include low flow plumbing fixtures, Energy Star appliances and lighting fixtures, low VOC sealants and paint, drought tolerant landscaping, high performing Low-E windows and energy efficient mechanical systems. Contractors will also be making every effort to utilize local building materials when possible. These improvements will help to lower the utility costs for both the owner and the occupant.

In addition, the narrative should address the following:

1. Identify which guiding principles in Section 2 of the Qualified Allocation Plan (QAP) the project meets and why it meets them:

Clarion Place Apartments acquisition/rehabilitation meets the guiding principals on numerous points.

To support rental housing projects serving the lowest income for the longest period of time.

Clarion Place Apartments proposed to provide units for four persons/families at 40% of area median income and have agreed to extent our affordability period to the maximum allowed. In addition, while the project does not have project based rental assistance, the development has historically provided housing for persons/families from the Housing Authority of the City of Pueblo Section 8 wait list. Those tenants typically have income at the 30% AMI level.

To provide a distribution of housing credits across the state, including larger urban areas, smaller cities and towns, rural, and tribal areas.

Clarion Place Apartments is located in a small city in rural Southern Colorado. Due to population size and project sizing to meet community need the acquisition/rehabilitation of Clarion Place Apartments is a rare opportunity to maintain the area minimal affordable housing stock.

To distribute housing credits to assist a diversity of population in need of affordable housing, including families, senior citizens, homeless persons, and persons in need of supportive housing.

Clarion Place Apartments has historically served small/large families and will continue to do so. As mentioned above the development has worked with persons/families from the

Housing Authority of the City of Pueblo wait list, but also the Spanish Peak Mental Health wait list.

To support new construction of affordable rental housing projects as well as acquisition and/or rehabilitation of existing housing projects, particularly those with an urgent and/or critical need for rehabilitation or at risk of converting to market rate housing.

The acquisition/rehabilitation of Clarion Place Apartments provides a unique opportunity to provide the improvement necessary to provide quality affordable housing for a diverse population in a rural area of Colorado. Once upgrades are completed the development will afford the residents the improvements and energy efficiencies required in today's rental market.

To reserve only the amount of credit that CHFA determines to be necessary for the financial feasibility of a project and its viability as a low income housing project throughout the credit period.

The requested allocation of LIHTC is the minimum amount required to assure the successful acquisition/rehabilitation of Clarion Place Apartments. While the improvements to be made are substantial and will result in a project with long term livability, affordability and financial viability the improvements and associated costs were viewed with a conservative view of what was necessary.

2. Identify which housing priority in Section 2 of the QAP the project qualifies for:
Projects in counties with populations less than 175,000

Clarion Place Apartments is located in Pueblo County with a total population of 163,104. Southern Colorado has some of the lowest income counties in the State, but due to the low populations, it is extremely difficult to develop properties sized to meet the demands of the community. That is why it is extremely important to preserve and maintain the current affordable housing developments in the community.

3. Describe how the project meets the criteria for approval in Section 2 of the QAP:

Clarion Place Apartments is located in Pueblo West, a metro district 5 miles west of the city of Pueblo in Pueblo County, population 163,104. The development will serve a diverse population of small/large families with incomes ranging from 30-60% AMI (30% units will be from Section 8 voucher holders from the Housing Authority of the City of Pueblo. The developer has elected to maintain the maximum extended affordability period. The requested allocation of \$ 239,391 in LIHTC speaks to commitment of the development team to maintain reasonable development costs while providing the improvements necessary to assure that residents are afforded long term quality affordable housing.

- a. Market conditions: Clarion Place's proposed rents on the 40-60% AMI units are 58, 46 and 31% below the Class B market rate developments in the PMA and provide a good value to potential tenants.

The projects proposed acquisition/rehabilitation improves the PMA affordable rental housing inventory without impacting existing LIHTC developments.

The project has good visibility with excellent access to highways, employment, services, shopping, schools, parks and hike/bike trails.

The market study clearly indicates that rents are achievable and project that even if project were totally vacated for rehabilitation it would achieve full occupancy within six months.

- b. Readiness-to-proceed: Rural Housing Properties, LLC could proceed with the redevelopment of Clarion Place Apartments immediately upon approval of an allocation of LIHTC's and the CHFA permanent mortgage. Final building plans could be completed by September 30, 2015, construction bids by October 31, 2015 and start of construction by November 30, 2015. The construction lender is in place and the equity investor could close prior to the start of construction.
- c. Overall financial feasibility and viability: To ensure financial feasibility, development costs for the project were conservatively underwritten. To maintain the long term viability all minimum underwriting criteria were met.

This was done while maintaining a reasonable LIHTC allocation request of \$ 9,974/unit.

The projects DCR meet lender underwriting requirements ensuring the long term financial viability of the project by looking at the 15 year tax credit period.

Additionally, the deferred development fee can be paid within the first ten years.

Taking into consideration all of the above, this project represents an efficient use of tax credit dollars. Because of the projects small size, this project is not financial feasible as a 4% bond project.

- d. Experience and track record of the development and management team: The developer, architect, contractor, property manager have a proven track record in developing/managing affordable rental housing using LIHTC's and other public funds. After completion the developer's projects are well managed, leasing up on schedule with timely reporting and no compliance issues. A complete listing of projects developed in Colorado since 1990 was included in the Development Team Information.

Development Team:

| | |
|----------------------|-------------------------------|
| Application/Sponsor: | Rural Housing Properties, LLC |
| Contractor: | Key Construction Arizona, LP |
| Property Manager: | Landmark Management Group |
| Tax Attorney: | Rosenburg Law Firm |
| CPA: | Blackman and Associates |
| Architect: | HGF Architects |

- e. Cost reasonableness: Uses are in line with what you would expect on the rehabilitation/upgrade of a 15 year old development. Total project costs are \$ 114.00/sf, total unit costs are \$ 134,772/unit. Total hard costs are \$ 59,488/unit or \$ 50.00/sf. The acquisition cost of \$ 980,000 is based on MAI appraised value at \$ 40,833/unit.

- f. Proximity to existing tax credit developments: Clarion Place Apartments is an existing tax credit development placed in service in 1999. The project was the first LIHTC development approved in Pueblo West and consist of twelve duplexes located in Pueblo West just west of Purcell Boulevard. The development is one half mile east of Stonegate Village, a 55 unit LIHTC development which is comprised of 2, 3 and 4 bedroom units. This is the only LIHTC development in the PMA. All other LIHTC projects are located within the City of Pueblo.
 - g. Site suitability: Clarion Place Apartments are located in an existing neighborhood which is composed of primarily single family homes and duplexes. The site is flat, free of any environmental concerns. The site is proximate to all required services. The Pueblo West commercial district, convenience store, financial institutions, library, employment centers, elementary/middle schools, parks and hike/bike trails are within 1 mile. The high school and hospital are within 2.5 miles. This is extremely important in that there is no public transportation in Pueblo West.
4. Provide the following information as applicable:
- a. Justification for waiver of any underwriting criteria (minimum operating reserve, minimum PUPA or high PUPA, first year debt coverage ratio below 1.15 or above 1.30, minimum replacement reserve, vacancy rate below CHFA's minimum):

Project meets all underwriting criteria and request no waivers.
 - b. Justification of the financial need for CHFA's DDA credit up to 130 percent of qualified basis:

This project requires a CHFC boost of 25.83%. The project requires the boost because it is located in a rural area where rents are not able to generate revenues necessary to provide for operating expenses and debt capacity to fully finance development costs.
5. Address any issues raised by the market analyst in the market study submitted with your application:

The market study indicates that rents are slightly higher than tax credit rents in the completing LIHTC project in the PMA. This is due to the recent increase in allowable LIHTC rents not being reflected in competing rents at the time of the analysis. The study did indicate that the proposed Clarion Place rents were 58, 46 and 31% below completing market rents in the area based on the 40, 40 and 60% AMI levels.

The market study indicated that capture rates were slightly higher than CHFA target but due to the fact that the proposed acquisition/rehabilitation was not added new units to the market area that it should not be a concern.

6. Address any issues raised in the environmental report(s) submitted with your application and describe how these issues will be or have been mitigated:

The Phase I environmental report indentified no environmental concerns. The development was a LIHTC development built in 1999.

7. In your own words describe the outreach that you have conducted within the proposed community and demonstrate local support for the project (including financial support):

The Pueblo West Metro District and the Housing Authority of the City of Pueblo have reviewed the project and have written letters of support. Rural areas have extremely limited budgets which are reserved for local services and were not available to assist in project financing.

8. For acquisition/rehab or rehab projects, provide a detailed narrative that describes the proposed rehab plans and relocation plan (if applicable). Address the 10-year rule; capital expenditures over the past two years; previous related party relationships; past local, state, or federal resources invested in the project; obvious design flaws; obsolescence issues; safety issues; and any significant events that have led to the current need for rehabilitation (i.e., fire, nature disaster).

The proposed rehabilitation will can be accomplished through normal attrition. It is the intent of the development team to rehabilitate two units at a time and upon completion

relocate existing tenant into completed units. Relocation expenses will be limited to transfer of utilities and moving expenses.

A copy of the vesting deed, O & E Title report and legal opinion of compliance with 10 year rule was included in application package. There is no relationship between the existing limited partnership and the proposed development team or their investors.

There were no previous federal or state funds invested in the development.

The original design was modest and projected operating budgets minimal. The development was constructed prior to any of the new green design criteria or requirement for accessible units. The project also did not have amenities that are the norm for new developments, like air conditioning and washer/dryer hookups. The structures are dated, and in order to remain competitive in the market need improved to insure continue economic viability.