

# 9% lihtc application narrative



Project Name: West Park Apartments

Project Address: 1006-1010 Park Avenue, Canon City, Colorado

## **Why this project should be funded**

Renovation of West Park Apartments in Canon City will preserve existing family/senior 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 \$ 110,333 to help in the acquisition/rehabilitation of 12 affordable apartments in the City of Canon City, Colorado. The developer of West Park Apartments is proposing to acquire and renovate this development along with Clarion Place Apartments in Pueblo West 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 one fully accessible unit to allow us to better serve the population in need of that type of unit. West Park Apartments is an existing 15 year old 12 unit LIHTC development located in South Canon City. Canon City has one of the tightest rental markets for affordable housing in Southern Colorado. As the market attached market study indicates the affordable units in the area have a 0% vacancy rate with waitlists. The acquisition/rehabilitation will not increase the inventory of units, but will preserve quality affordable units for the community.

## **Location**

The property is located at the intersection of 10<sup>th</sup> Street and Park Avenue, on the South side of Canon City. The property is less than one mile from downtown Canon City, which offers a host of services, shopping, amenities and employment resources that occupants need in order to remain comfortable in their units. Residents of West Park are within walking distance of the shopping, banking, employment, services, hike/bike trail system, an Elementary School and several city parks. The neighborhood is predominantly single family homes, making this a great location for singles, families or seniors.

## **Site**

The project consists of two 6 unit building located on a .33 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 neighborhood, however, due to the quiet, relaxed atmosphere it is an excellent location for a multi-generational development. Access is from a dual access onto Park Avenue with is located within a quarter mile of 9<sup>th</sup> Street (State Highway 115) which provides access to the central business district, shopping, services, employment and government offices.

## **Population Served**

West Park Apartments has historically served singles, small families and seniors 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**

West Park will serve a diverse mix of income levels. The following is a detailed breakdown:

Unit Type	% AMI	# of Units	Net Rent
2 Bedroom	40%	2	\$ 486
2 Bedroom	50%	6	\$ 600
2 Bedroom	60%	4	\$ 620

Both the 50% and 60% rent levels are less than the maximum allowable 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. One unit 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:

West Park 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.

West Park Apartments proposed to provide units for two 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 Upper Arkansas Area Council of Governments 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.

West Park 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 West Park 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.

West Park Apartments has historically served families, seniors and the homeless and will continue to do so. As mentioned above the development has worked with persons/families

from the Upper Arkansas Area Council of Governments wait list, but has also provided housing to homeless coming out of the shelter provided by Loaves and Fishes.

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 West Park 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 West Park 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

West Park Apartments is located in Fremont County with a total population of 46,752. 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:

West Park Apartments is located in rural Fremont County, population 46,752. The development will serve a diverse population of single persons, small families and seniors with incomes ranging from 30-60% AMI (30% units will be from Section 8 voucher holders from the Upper Arkansas Area Council of Governments. The developer has elected to maintain the maximum extended affordability period. The requested allocation of \$ 108,111 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: West Park's proposed rents on the 40-50% AMI units are 5-7% below the Class B LIHTC developments 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 three months.

- b. Readiness-to-proceed: Rural Housing Properties, LLC could proceed with the redevelopment of West Park 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 \$ 9,194/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 \$ 158/sf, total unit costs are \$ 112,333/unit. Total hard costs are \$ 48,421/unit or \$ 48.42/sf. The acquisition cost of \$ 340,000 is based on MAI appraised value at \$ 28,333/unit.

- f. Proximity to existing tax credit developments: West Park Apartments is an existing tax credit development placed in service in 1999. The project was the third LIHTC development approved in Fremont County and consist of two six-plexes located on the south side of Canon City. The development is sets immediately west of Park Avenue Apartments, a 28 unit LIHTC development which is comprised of 1, 2 and 3 bedroom units. All other LIHTC projects are located on the north side of Canon City. Fremont County Family Center is 2 miles north of West Park and is made up of 52 three bedroom apartments, North Park Village is also 2 miles north and has 1, 2, 3 and 4 bedroom single family homes. Celtic Townhomes is north and east of the subject and has 14 two bedroom units in seven duplexes. Heatherwood Apartments is five miles east and has 54 two bedroom units.
- g. Site suitability: West Park Apartments are located in an existing neighborhood which is composed of primarily single family homes. There is an existing 28 LIHTC development immediately to the east of the proposed project. The site is flat, free of any environmental concerns. The site is proximate to all required services. The Canon City central business district, convenience store, financial institutions, library, employment centers, elementary/middle schools, farmers market, parks and hike/bike trails are within 1 mile. The high school and hospital are within 1.5 miles. This is extremely important in that there is no public transportation in Fremont County.

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 29.99%. 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 analyst suggested that the originally proposed rent of \$ 700 on the 60% AMI units were overly aggressive. The development team reduced rents at the 60% AMI level to \$ 620 to maintain the developments marketability.

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 City of Canon City and the Upper Arkansas Area Council of Governments ( local Section 8 service agency) 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.