Community Development Division

LakeCounty

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Memorandum

To: CDC Housing Application Review Committee (ARC)

From: Community Development Division

Re: PY2013 HOME/LCAHP Application Review – Review Notes

Project Name: CPAH Scattered Site Preservation Plan
Applicant: Community Partners for Affordable Housing (CPAH)
Program/Project Type: Housing Acquisition, Rehabilitation, Resale- PROJECT
Funding Request and Eligibility: $270,000 HOME Funds, $67,500 LCAHP; Eligible under HOME/LCAHP

Introduction:
Utilizing the Community Land trust (CLT) model, CPAH proposed to acquire, rehabilitate, and sell (5) scattered site housing units in Lake Forest and Highland Park. Four of the homes will be reserved for households earning 80% of area median income (AMI) or less, while the fifth home is reserved for households at 100% of area median income or less. The proposed scattered site project is eligible under both HOME and LCAHP, however, one unit as proposed is restricted to LCHAP funds due to HOME program eligibility restrictions related to income.
Note: A portion of the proposed project qualifies for funding under the County's Community Housing Development Organization (CHDO) set-aside. The CHDO certification of CPAH is technically pending due to revised HOME regulations; staff does not anticipate any certification issues.

Proposal Details:
Type of Project
Scattered Site Homebuyer – Includes the acquisition, rehabilitation (new construction not included in proposed project) and resale of housing units to eligible households. Under the HOME program, this includes households earning less than 80%AMI and under the LCAHP program, households earning less than 100%AMI. Homes are required to conform to all local building codes and must meet minimum code requirements at completion of rehabilitation, Lake County program construction and rehabilitation standards, have major life-systems expectancy to last the period of affordability or sufficient replacement reserves based on assessments, and be sold within six months of construction completion. (All 2013 projects will need to be sold within six months of completion under the new HOME rule.)

Key Project Information
CPAH proposes a five-unit scattered-site homebuyer project to include the acquisition, rehabilitation, and resale of homes in Highland Park and Lake Forest.

Total Proposal Cost:	$1,595,000
Funding Request:	$270,000 HOME $67,500 LCAHP
Applicant Match/Leveraging:	Match: $345,000 Leveraging:$1,257,500 (inclusive of match, other cash sources and developer equity)

Homes targeted for acquisition include foreclosed and blighted homes. The CLT model provides for a long-term leasehold to the land paid through a $25/month fee from the homebuyer that secures essentially an affordable unit in perpetuity. In the case of resale, the home is sold to another eligible buyer, or the developer CPAH to in turn resale to an eligible buyer while providing the original buyer with a fair return on any derived equity. Per CPAH, the purchase price is typically 40-60% below the market value in this model because the homebuyer is making purchase only to the home and not the land. CPAH provides additional services for homebuyers including potential applicant orientations, continuing education regarding home finances and maintenance, energy efficiency, and if necessary refinancing. Also offered is access to a revolving loan fund to assist in critical home repairs funded by CPAH.

Targeted populations (AMI, demographics)
Family homebuyer units for three bedrooms are assumed "Large Related Owner." There is no other specific demographic information. Please note the following breakdown:

Total number of units/households to be served:	5 units
Number of units/households at ≤50% AMI:	0
Number of units/households at ≤80% AMI:	4
Number of units/households at ≤100% AMI:	1

Type of units (bedrooms, type of construction)
Rehabilitation of existing single-family housing units of three bedrooms, 1.5 bath and approximately 1400 square feet.

Technical Review:
Consolidated Plan Priorities
Meets Rehabilitation Goal 1.2 of the 2010-2014 Consolidated Plan – rehabilitation of housing units for rental or homeownership. The priority designation for this activity is HIGH.

Project Location, Market Conditions/Need

The current market conditions as indicated by CPAH reference median sales prices for the targeted market areas of Highland Park and Lake Forest as $423,000 and $642,500 respectively. Both communities are identified as State non-exempt communities, thus high-cost areas for affordable housing and per census data households are housing cost burdened, meaning they pay more than 30% of their income for housing related costs. CPAH indicates it holds a waiting list of more than 50 families for housing. Other employment data provided by CPAH for the market area indicates a need for affordable housing access to those in service, retail, and public sector employment as a majority cannot afford to live in the community for which they work. Upon actual site-selection, CPAH will be required to provide a more localized market study to demonstrate rehabilitation and sales value trends and need per the proposed project.

Proposed Units and Type of Construction – Feasibility/Appropriateness for targeted population and demographics

The proposed construction type is appropriate for the targeted population of large families and feasible to net sales of homes or if required, rental.

Project Readiness

The project completion timeline is sufficient as proposed and assumes an acquisition and construction period to last through 2014. As for draw on funds, CPAH will need to revise the anticipated retain draw and use of County funds to conform to local County requirements reflective of the new HOME rule. As project the project developer, CPAH will be required to create a targeted plan for rental conversion (discussed under "Additional Technical Requirements" herein) in order to satisfy regulatory compliance for rental conversion under the regulations as cash flow does not support rental conversion. Analysis of resident selection criteria and affirmative requirements is satisfactory.

Match and Leveraging

The project includes significant sources of eligible HOME match under the "cash" provision including the Highland Park and Lake Forest Housing trust funds. The total of $345,000 committed eligible match reflects a 127% match to the requested amount of HOME funds for the project. Further, the total leveraging of other funds and capital is in excess of 75% of the total development proposal.

Capacity/Development Team

CPAH has previous developer experience and capacity with the specific scattered site rehabilitation project and overall organizational capacity, including 26 homes of the same model in the current portfolio. The developer also has previous experience utilizing HOME funds and layered finance projects. Identified partners of the development team include an attorney, pro-bono architect, real estate agent and home inspector. Extensive developer capacity evaluation is conducted as part of the CHDO certification.

Labor Standards and Affirmative Marketing Requirements

The per unit construction costs average may increase to account for higher labor costs based on the current provision to require Illinois prevailing wage for construction projects. CPAH will conform to the County's MBE/WBE and Section 3 policies and will be required to adopt the County's affirmative marketing requirements as applicable.

Project Financials and Feasibility Analysis-
Subsidy Layering review and underwriting, budgeting
The project as presented by CPAH did not contain any financing gap based on the request for HOME and LCAHP funds; both requests were reasonable for the scope of the project and funds are appropriately budgeted for the various proposed project activities. The budget appears informed by local market cost trends and previous projects, though may require a slight increase based on current prevailing wage requirements. As a result of the new HOME rule, passed and implemented after application by the developer, staff completed additional underwriting that nets a cash-flow issue due to a loss of potential sales proceeds because of restrictions on after rehabilitation value and sales price for the project as presented at five units. As outlined in the "staff comments" section, staff has identified solutions to mitigate this cash flow problem, however it may include a reduction to the scope of units if a self-conducted market study does not net the sales values sought if funded as currently presented. Results of a minimum feasibility analysis of the project are presented in the general staff report for round. Alternatively, if more funding were to be allocated to the project as presented from less restrictive LCAHP funds for the same total project cost and to target both 80% and 100% AMI or less households, the financial gap could be easily assumed. The funding sources and uses as presented are feasible and mostly secured. Other considerations include discontinuation of the homebuyer counseling and assistance practice previously utilized by a majority of developers in the County that resulted in duplicate beneficiary reporting and assistance. Any homebuyer subsidy including downpayment, closing cost or reduction in sales price assistance/subsidy is to be considered an inherent part of the development deal and will result in a reduction of proceeds take from the final sale. Depending on the actual homebuyer targeted, this may or may not challenge cash flow over the course of all the units in the project, however it is a HOME rule requirement that each unit be underwritten for both the development and end homebuyer and if necessary, the County would impose a change in scope to the total project should funding run insufficient. While the rehabilitation and long-term affordability of the project as a homebuyer project is confirmed, the project as presented would cash flow if converted to rental for the required period of affordability but does not have the actual cash reserves to support implementation of the rental as confirmed and requires further evaluation.

Cost Reasonableness/Efficiency in use of funds
The proposed acquisition, construction and carrying costs appear to be reasonable as presented. The proposed developer fee is within the County's base norm and is not excessive for the project type. The proposed project schedule will net an efficient use of funds from all sources as multiple sites will be under construction at once to provide for access to sales proceeds and minimization of carrying costs for properties.

Additional Technical Requirements
Per the new HOME rule and 2012 Congressional Appropriations Act, all 2013 HOME projects under homebuyer programming are required to be sold within six (6) months of construction completion. In the case a unit is not sold, it must be converted to a rental unit. As this is a rehabilitation project, the net period of affordability is not a concern for change, but the ability for a rental project must be analyzed. As presented, the project would have a

cash flow shortage if one or all units are converted to rental. CPAH has proposed utilizing a lease-purchase model in the case a unit cannot be sold, or to fulfill the rental cost obligations utilizing an existing line of credit. A third option including a reduced sales price for quick sale would most likely not be successful unless that consideration was early in the sales process, for example month three of sales. CPAH will need to target homebuyers as soon as initial acquisition is complete, and may even consider spec-rehabilitation to secure buyers under contract. The County has identified lease-purchase as a homebuyer strategy given the current market; such buyers should be identified in months 4-5 of sales. If come month five no buyer for a home is secured and under contract, the rental option will most likely be exercised. As CPAH currently maintains a small portfolio of rental units, this is not a major capacity challenge for the developer as far as managing rental, but it is not feasible at this time to estimate the impact of the addition of four rental units to CPAH's portfolio and ability to sustain long-term operations through a potential fifteen-year period of affordability if developer credit was the sole option of financing. Prior to contracting, the County would require CPAH to provide a development and sales timeline inclusive of these requirements.

Criteria Point	Points/Multiplier/Total	Discussion/Evaluation
County Plan Criteria *6 point basis*	6/0/6	Rehabilitation is a HIGH priority activity
Preference Areas *15 point basis*	15/0/15	Transit, Energy Efficiency, Larger families, affordable units, housing stability
Development Capacity – Applicant Experience **Overall** *10 point basis* **Project** *10 point basis*	10/0/10 10/3/30	Developer has sound experience overall/project specific capacity; proper developer financial and procurement controls/budgeting and project team
General Contractor Experience *5 point basis*	3/2/6	Contractor not identified in application, previous exp. with contracting
Management Experience *6 point basis*	6/3/18	Portfolio demonstrates previous mgmt. capacity for unit type
Site Control *10 point basis*	5/3/15	No site control/means of site identification adequate
Zoning *5 point basis*	5/2/10	No zoning issues, existing zoning for proposed residential only (acq.)
Viability/Market Need *8 point basis*	8/2/16	Need evidenced/local market conditions
Neighborhood Analysis *6 point basis* *5 point boost*	9/2/18 (boost included in raw base)	Scattered site, proposed siting plan adequate; high cost communities
Site Amenities *3 point basis*	3/0/3	As proposed elements/family population
Incomes for Target Population *6 point basis*	3/0/3	Targeted AMI/population is Medium priority in ConPlan

Connection to services/resources *5 point basis*	5/2/10	Services/counseling/training/household mgmt
Accessible Units *5 point basis*	3/2/6	Site selection includes assessment of accessibility features and options to include barrier free design; not committed A/V design
Project Adaptability *5 point basis*	5/2/10	Single-family-conversion to rental/lease-purchase-single-family scattered site is convertible to rental
MBE/WBE *3 point basis*	3/0/3	Per County requirements
Section 3 *3 point basis*	3/0/3	Per County requirements
Project Feasibility *12 point basis*	10/3/30	Majority feasible, cash flow considerations required/ additional conversion to rental considerations required; cash-flow issue per sales proceeds not weighted in score as after application made
Financial Evaluation *20 point basis*	18/3/54	Appropriate financials, budgeting and scope and majority committed sources; sources varied; will require changes to homebuyer subsidy-net proceeds from sale; rental conversion financing gap
Match **HOME only** *9 point basis* **Leveraged financing** *9 point basis*	9/3/27 9/3/27	Match and leveraging in high excess
Operating Financing/Project Reserves *6 point basis*	3/2/6	Identified potential sources of operating for rental conversion if required
Long-term compliance/Period of Affordability *12 point basis*	12/2/24	Will meet period of affordability requirements both in sale and conversion
Construction costs per HUD max/local market/cost reasonableness *15 point basis*	15/2/30	Reasonable costs and efficient use of funds evidenced, budget appears informed
Fees *5 point basis*	5/3/15	Reasonable developer fee-within norm
Supportive Housing *5 point/unit basis boost*	None	Not supportive housing units
Community Revitalization *10 point basis*	10/0/10	foreclosures/vacant stock/housing planning areas/economic/Impact on blight/housing preservation
TOTAL Points **Max. w/mult.: 443**	**Total Scored:405**	**Percentage of Possible Points: 91%**

Staff Comments:
As a result of the new HOME rule, effective August 23, 2013, the project proposal was underwritten utilizing assumptions different from that of the developer that nets a slight deficiency in cash flow for the total development costs of approximately $65,000. This is due to restrictions on the after rehabilitation sales limit, which in turn changes the anticipated sales revenue from units to support ongoing cash flow in the total development budget. The staff minimum feasibility recommendation for funding reflects this analysis. Because the project is located in a high cost area of the County, staff recommends exercising the option under the new HOME rule to establish a local maximum value limit based on a local market study and formula, this would however delay execution of the project and staff cannot determine at this time if all necessary data to determine a limit for the high-cost communities of the County is available. Staff however believes utilizing the low limit as currently provided by HOME would negatively impact market stabilization in high cost and even some low-cost communities that homebuyer assistance and sales price reduction subsidies have otherwise preserved while maintaining affordability. An additional consideration for funding at the full project scope would include funding less development costs under the HOME program and more under the LCHAP program which could mitigate the cash flow problem as higher sales proceeds could be generated from the cost allocation of LCAHP funds. Staff would also recommend altering the timeline for draw on County funds as a result of new HOME rule changes that affect fund expenditure deadlines and tracking and the six months sales rule that applies to 2013 HOME projects. Finally, the project will need to include in the development costs a set-aside for required homebuyer counseling costs. This addition does not significantly affect project cash flow.