

MERRITT

m e s s e n g e r

Burgess Point Apartments Affordable Housing on a Hill

For the longest time it was a rocky tree covered hill overlooking the Carquinez Straits in Benicia. Zoned for multifamily development, the site was one of the only remaining parcels of land over one acre in size in this city of 27,000. After one builder failed at developing the site, the Benicia Housing Authority contacted the Solano Affordable Housing Foundation to see what it could do to transform this hill into much needed affordable housing.

According to Dennis McCray, Executive Director of the Solano Affordable Housing Foundation, (SAHF) "This is Benicia's first Low Income Housing Tax Credit projects and one of the first affordable housing developments in over 50 years." It was a particularly difficult site to develop he says, because the hill was composed of rock and one section of the site had to be reduced by ten feet and another increased

by ten feet in order to create a level foundation. SAFH, developer of Burgess Point, is a community based nonprofit development company that has created or preserved over 900 affordable rental homes and 125 single-family houses for first-time homebuyers.

The result is a design that incorporates usable open space for residents while preserving the natural beauty of a site visible throughout Benicia. Burgess Point consists of eight two and three-story wood framed buildings in traditional architectural style, with hipped roofs and many elements similar to single-family homes. There are 20 three-bedroom townhouses, 12 one-bedroom flats and 23 two-bedroom flats in the development. According to McCray, "the townhouses are two-story buildings located along the perimeter of the site. The flats are contained in two three-story buildings in the middle of the develop-


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SOLANO AFFORDABLE HOUSING FOUNDATION

Solano Affordable Housing Foundation (SAHF) is a nonprofit corporation with the mission of preserving and increasing the supply of affordable housing. SAHF was formed in 1990 by a cross-section of business, social, and political leaders concerned with the ever-increasing "gap" between the cost of housing and families ability to pay.

SAHF's fundamental job is to reduce the "gap". It accomplishes the mission, not by reducing quality of design, quality of construction, or low-balling operating budgets, but by utilizing sound real estate principals and a combination of Federal/State/ and local government funding programs earmarked for housing. It finds methods to finance the "gap" without sacrificing the quality of the product or the operations.

Since its inception, SAHF has built or rehabilitated in excess of 900 units including over 775 multifamily units and 125 single-family homes. The majority of the multifamily projects have been in rental complexes of 24 to 152 units for families earning 60 percent, or below, of median family income adjusted for family size. The single-family homes were existing houses acquired, rehabilitated and resold to qualified first time homebuyers. Virtually all of the housing has been completed within budget and time schedules. 



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Community Profile: *The John Stewart Company*

It's a firm that has worked with nearly half of all of Merritt's nonprofit housing

development partners. It's a company that has provided high quality management services to municipalities, housing authorities, redevelopment agencies, Low Income Housing Tax Credit investors, and private sector housing developers. It is a for-profit firm that frequently commits its own assets to a project, sharing risk with its partners believing that common goals are best achieved together. That firm is The John Stewart Company (JSCO) and since 1978 it has provided a wide variety of management services to affordable housing developments throughout the state.

The John Stewart Company had three employees when it was founded by Stewart in 1978. His real estate experience included developing public and HUD-assisted and insured housing. Stewart combined that experience with a personal commitment to the field of affordable housing to build one of the strongest affordable housing management firms in California. Merritt Asset Manager Birute Skurdenis is a former John Stewart Company employee and she recalls her decade of working for the firm. "What I remember most is the family feeling when I worked there. The people were supportive of each other, which is particularly important when you work in a high stress field like property management. It was a great place to work," she remembers.

According to Jack Gardner, the firm's President & CEO, "the John Stewart Company is a leading full-service housing management, development and consulting organization. We do housing management, new housing development, housing rehabilitation, construction management, financial and syndication, consulting, management of common interest developments, and accounting." The firm has expanded over the years and now has offices in San Francisco, Los Angeles, Santa Cruz, San Diego and Sacramento. Today, the company has almost 1,100 employees, a management portfolio which exceeds 23,000 units in over 270 properties that provide housing to more than 50,000 California residents. The John Stewart Company was recently ranked the fifth largest manager of multifamily residential properties in California, almost certainly ranking it the largest manager of affordable housing in the state.

Comprehensive housing management is the foundation of the JSCO housing services. "Our goal is to provide secure, service oriented, well-maintained and professionally managed housing that serves the interests of residents and owners alike," says Gardner. "We reach beyond the traditional management services of maintenance and budgeting, and strive to create community environments which foster physical, social and emotional well being among residents. We also provide owners and sponsors with financial efficiency, accountability and value-added benefits," he adds.



THE JOHN STEWART COMPANY
Diversified Housing Services

"Ultimately, we realize that residents' quality of life as well as our clients' reputations depend on our ability to develop and manage exceptional living environments that are a source of pride for the whole community. We share our clients commitment to providing housing that is planned and managed to stand the test of time."

In addition to traditional property management the John Stewart Company offers accounting services, marketing and rent-up services, housing development, financial and syndication services. Another company niche is comprehensive management of large housing projects such as The Presidio Residences and The Villages at Treasure Island in San Francisco, both formerly military housing.

According to Gardner, clients can choose the level of assistance or the type of service provided to them. For some, like the Benicia Housing Authority, they contract with the John Stewart Company to provide marketing and rent-up services. "We use a range of targeted advertising and promotional activities selected to effectively and affirmatively reach potentially qualified applicants. We establish community outreach and community building programs in an effort to attract qualified residents. We also perform exhaustive background checks, call references and conduct family interviews, verify income and assure compliance with housing assistance programs," he explains. Given JSCO's experience in managing both distressed inner-city properties and high-end market rate properties, it is often hired by companies with their own management divisions to manage properties outside their range of experience.

Another area of expertise the John Stewart Company offers is housing development. It provides project management assistance during pre-construction and construction of new and

rehabilitation housing projects, both on a fee basis and through partnerships with nonprofit and private developers. This comprehensive service includes selection of a design

team, coordination of architects and consultants, establishment of timelines, and guidance through the planning and zoning review and public agency approvals. "We review final construction and bid documents, prequalify contractors and assist in the selection of the construction team," says Gardner.

The John Stewart Company also assists clients in securing financing for affordable housing developments. This work includes identifying, obtaining and combining various funding sources to make a project work. "After an initial feasibility study we prepare applications for equity and debt financing from both conventional lenders and public agencies. We are proud that we have a track record of obtaining multiple sources of financing and equity, enabling developments to proceed. We can serve as financial consultant and equity syndicator in a project, securing prices from a variety of private corporate investors for optimal returns. In the first nine years of the tax credit program, we raised over \$25 million in equity, providing high quality affordable housing to more than 500 households," Gardner explains.

The John Stewart Company is currently involved with two large affordable housing projects in the Bay Area. North Beach Place in San Francisco is the largest mixed-use, mixed-income development in California. The John Stewart Company, in cooperation with Bridge Housing, and EM Johnson Interests, developed this 341-unit complex that is being heralded as an innovative example of New-Urbanism. "North Beach Place replaces a dilapidated former housing project that provided 229 units of housing. The new development includes a separate building for seniors, a childcare center, a community center, landscaped courtyards and playgrounds, a business incubator space and a

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NORTH BEACH PLACE HAS EASY ACCESS TO SEVERAL BUS LINES AND A CABLE CAR LINE IN SAN FRANCISCO.



President's Message

by Bernard T. Deasy

Since the founding of the Community Alliance for Assisted Housing (CASH, Inc.) in 1989, through its transition to Merritt Community Capital Corporation in 1995, we have embraced countless opportunities and faced many challenges. From a small, Oakland-based group of initial investments, we have now invested in 44 successful tax credit properties in 16 different California counties with 24 outstanding partners. With each year and each TCAC award, we have been encouraged by the quality and support for affordable housing throughout the state of California.

While our initial focus was on Alameda and Contra Costa Counties, over the years we have gradually and thoughtfully expanded the geographic range of our investments in affordable housing. Also, many of our partners have also dramatically expanded their operations to cover the entire state.

This year, we reviewed several outstanding opportunities in Southern California and, after a thorough analysis of our resources and our potential partners, we have decided to seek quality tax credit property investments throughout the state of California. To date, we have entered into negotiations with two nonprofit partners in Southern California, one new to us and one a long-standing partner.

Jamboree Housing in Irvine has been an outstanding developer of affordable housing in Orange County for several years. Recently, they have expanded their base of operations to include projects in both Northern and Southern California. We have entered into a joint partnership with Jamboree Housing and Preservation Partners Development. It is an acquisition with rehabilitation family project in Fontana, California. Citrus Grove Apartments is a 50-unit family complex that will be acquired and rehabilitated using tax exempt financing with California Housing Finance Agency. The project consists of three- and four-bedroom townhouses in ten two-story buildings. Jamboree Housing has developed more than 2,000 units of affordable housing in Southern California since 1990 and has recently expanded into Gilroy, San Jose and Sacramento. Preservation Partners Development is a for-profit development company specializing in acquisition and rehabilitation of HUD and California Housing Finance Agency-insured and assisted multifamily housing developments. Since its formation in 1999, Preservation Partners has rehabilitated 12 affordable housing projects totaling 2,064 rental



units and it will serve as project developer and co-general partner. Merritt looks forward to participating in several other deals with Jamboree throughout the state of California.

In Santa Barbara, we have just issued a commitment to invest in St. Vincent's Garden, a 75-unit family development sponsored by Mercy Housing California and the Daughters of Charity. The family housing project will be just one component of the coordinated development of the 20-acre facility owned by the Daughters of Charity. It will eventually include a HUD 202 senior housing project with an estimated 95 units of affordable housing as well as social service delivery facilities operated by the Daughters of Charity. With substantial support from both the City and the County of Santa Barbara, St. Vincent's Garden will become an outstanding model of quality affordable housing development and Merritt is proud to be the project's equity investor.

The decision to enter the Southern California was preceded by a careful and thorough analysis of our own internal capacity and the composition of the market itself. We determined that Merritt had both the staff skills and the internal systems to successfully engage the tax credit market in Southern California. Merritt was very encouraged by the number and strength of the many experienced nonprofit housing developers in the Southern California affordable housing market. With our straightforward and concise underwriting practices, our supportive Asset Management and Training programs, and our history as a California-based, mission-driven nonprofit equity provider, we firmly believe that Merritt adds a unique dimension to the mix of tax credit investors now present in Southern California. We look forward to the expansion of Merritt's geographic service area and to providing unparalleled value and service to our new and existing partners throughout the state.

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Asset Management News

by Birute Skurdenis

Over the past few months, the asset management staff at Merritt Community Capital have had the opportunity to attend three separate conferences where tax credit professionals had an opportunity to talk about new issues impacting our ability to comply with tax credit regulations. Some of the same issues kept popping up:

How are organizations complying with the provisions of IRS Revenue Procedure 2003-82? This is the safe harbor provision that protects tax credits when a household qualifies before the beginning of the first taxable year of the building's credit period, but by the beginning of the first taxable year of the building's credit period their income exceeds income limits. This occurs when an owner chooses to delay the first tax credit year. 2003-82 states that the tax credits are protected, even if a household is over income at the beginning of that year, but only if management has recertified the household as of January 1st of the first tax credit year. This ruling has perplexed everyone in the tax credit compliance world. If someone is eligible in June of 2004 and over income on January 1, 2005, what difference does an interim recertification on January 1st make? Why can't you just wait until the annual recertification in June of 2005?

Apparently the IRS is concerned about the Next Available Unit Rule (NAUR). If the building is less than 100 percent tax credit units, an unknown, over income household on January 1st in the first tax credit year, could lead to inadvertent noncompliance with the NAUR if management houses a market rate household in a unit that should have been offered to a tax credit qualified household.

So, how are managers complying with this Rule? Is everyone recertifying all households by January 1st when the first year of tax credits is delayed? Not by a long shot. Some managers are depending on household self-certification of income on January 1st. Others are requesting current paystubs or public benefit letters to accompany the self-certification. Still others are relying on an informal IRS policy that accepts post-dated income certifications if the informa-

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MERRITT MESSENGER

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Board MEMBER Profile

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Yung's
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MARGARET YUNG

in New York as a certified public accountant. Having graduated Magna Cum Laude from Queen's College in 1980 with a degree in Accounting, she began working for Touche Ross & Company performing certified audits. That financial background would later help her as she transitioned into real estate lending and ultimately to managing Washington Mutual's Low Income Housing Tax Credit Program in Seattle, Washington as First Vice President.


This transition began when Yung started working as an Internal Auditor for Citibank/Citicorp in 1989. Over the next three years she became Real Estate Account Manager for Citibank's New York operations. Yung then transferred to Seattle to head up the bank's Regional Real Estate Loan program. "I have family in Vancouver, Canada," Yung explains, "and I was looking for an opportunity to relocate closer to them. After a couple of years of originating multifamily loans in the Northwest, Citibank decided to close their multifamily lending program nationally. I decided that I wanted to stay in Seattle and joined Washington Mutual as Manager of Real Estate Lending," says Yung. Initially this consisted of managing the underwriting of commercial real estate loans in the Northwest. This success led to her appointment as Manager of Low Income Housing Tax Credit Investments. Her work now includes business goal setting, portfolio management, performance reviews and staff growth and development. Yung oversees the development of policies and procedures, directs the creation and preparation of management reporting, and she is responsible for Community Reinvestment Act strategic direction of LIHTC investments. Her responsibilities have also expanded to include Washington Mutual's New Markets Tax Credit program and its investments in historic tax credit projects.

According to Yung, Washington Mutual is very committed to affordable housing. "In 2002

we made a ten-year \$375 billion lending and investment commitment. This covers single and multifamily lending, community investment and development and consumer and small business lending," she explains. In addition Washington Mutual makes millions of dollars in grants to affordable housing projects and in 2003 the bank's community loans and investments totaled \$393 million, Yung adds.

Some of that support has gone to the Plymouth Housing Group, a Seattle nonprofit that provides housing for homeless and low income residents. "Having lived in New York in the 1980s I remember the tremendous problem the city had dealing with the homeless population," says Yung. "It was an area I have always been concerned with and when the Plymouth Housing Group was looking for a board member with a finance background I was happy to volunteer." Yung ended up serving on the organization's Finance Committee and served as the board Treasurer.

Yung's finance background also came in handy when she was tapped to serve on Merritt Capital's board of directors in September 2003. According to Barney Deasy, Merritt's President, "Margaret was an excellent addition to Merritt's board for a number of reasons. First, as one of Merritt's investors, she is familiar with Merritt's mission and our operations. Second, she has hands-on due diligence experience managing Washington Mutual's Low Income Housing Tax Credit portfolio. Third, she brings a wealth of knowledge of accounting and finance operations issues to Merritt's board." Yung says she was interested in serving on Merritt's board "because I like the fact that Merritt is a regional nonprofit serving the Northern California market. Merritt plays a unique role in that it provides access to funding to smaller nonprofit organizations and it works with them to develop their organizational capacity. They often do the difficult deals that larger syndicators shy away from," she adds.

Yung now serves on Merritt Capital's Finance Committee. She lives in Seattle with her husband, Wai. 

Board Chair's Report

by Margaret Schrand

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appropriate to examine issues and initiatives that will have a significant impact on the affordable housing industry. Clearly, the selection of a President will have far-reaching consequences. We urge everyone to examine the candidates record on affordable housing issues and what type of leadership and commitment they bring to affordable housing programs and policies.

On a statewide level, the Nonprofit Housing Association of Northern California (NPH) is spearheading a multi-year advocacy and organizing program designed to increase the jurisdictions around the region with strong inclusionary housing programs. Inclusionary housing policies create incentives for developers of market-rate housing to set aside affordable housing in an otherwise market-driven development. While controversial to some, over 108 California cities and counties have adopted inclusionary programs that have resulted in the production of more than 34,000 affordable units since 1974. NPH estimates that inclusionary housing practices have the potential to create 15,000 units annually in California—nearly doubling the current rate of affordable housing production. Inclusionary policies are developed through local ordinance, General Plan policy or a permit approval process that requires or rewards affordable projects. While inclusionary housing is only one part of a comprehensive affordable housing policy, it is important to examine how these policies can affect the development of housing in your community.

Locally, Proposition A provides a specific example of an effort to increase housing opportunities for low and moderate income residents in the city of San Francisco. The \$200 million bond initiative is estimated to create 3,500 homes affordable to San Francisco's families, adults, and seniors. \$90 million is earmarked to develop supportive housing for those who are currently homeless or at risk of becoming homeless. \$60 million will be used to develop affordable apartments. An additional \$50 million will fund opportunities for new homebuyers. Half that amount will be dedicated to fund down payment assistance. The remaining \$25 million is earmarked to finance the development of new, permanently affordable homes. According to Bay Area Local Initiatives Support Corporation, the passage of Proposition A will result in an estimated \$600 million in additional investments and the creation of nearly 4,600 new jobs.

Clearly, your vote on these issues can make a profound impact on the direction of the country, on the lives of low and moderate income Californians, and the availability of affordable housing for those who need it most.



Burgess Point Apartments: Affordable Housing on a Hill

CONTINUED FROM PAGE 1

ment.” Amenities for residents include a 1,700 square foot community center that houses the management offices, laundry facilities, and community space for after-school and educational classes. Each unit has central space heating, a range, refrigerator, dishwasher and garbage disposal. Living rooms are carpeted and kitchens and baths have vinyl flooring. Each apartment has a patio or balcony and buildings overlooking the freeway were constructed with extra sheetrock under the siding to minimize road noise.

Residents seem to like the site and the development’s amenities. Shannon Tesolin, a resident who moved into one-bedroom apartment at Burgess Point says, “I have not had a problem with anything. It has been a wonderful transition. This place has a dishwasher, garbage disposal and a beautiful view. I appreciate it. I treat it as if it is my own. The best word to describe how I feel is ‘Wow.’ Living here is really a privilege. It’s a whole different world up here. You’re still part of the community, but you are living here in this truly beautiful place.”

Ena Murphy says, “I love it. Everything is modern. I used to live in a small duplex but this place has a bigger living room and dining area as well as forced air heating.” She now lives in a three-bedroom townhouse with her husband Ativa and their children Ativa Jr. 8, and Eniya, 2. Ena’s husband has served on the Benicia Housing Authority Commission and the family has lived in a Benicia Housing Authority property for ten years. “I was recruited to serve as resident manager of Burgess Point,” says Murphy. “I love my new job and my new home.”



BURGESS POINT RESIDENTS FROM LEFT TO RIGHT: ENA MURPHY AND HER DAUGHTER ENIYA AND SHANNON TESOLIN.

A resident family of four was faced with the prospect of losing their three-bedroom rental home in Benicia. “The owner notified us that the house was being sold and that they wanted us out in August. We heard about Burgess Point from a friend and we went down to the office at the end of May and filled out an application.” After two interviews the family was notified in July that they had qualified for a three-bedroom apartment. “We moved in on August 16th. It was a very easy process, the resident recalls. “It wasn’t as hard as I thought it would be. We couldn’t find anything that we could afford in the market. We were just lucky we qualified and that there were units available here.”

RESIDENTS CONTINUE TO OCCUPY BURGESS POINT APARTMENTS IN BENICIA. THE COMPLEX IS BENICIA’S FIRST LOW INCOME HOUSING TAX CREDIT PROJECT AND THE CITY’S FIRST AFFORDABLE HOUSING PROJECT IN OVER 50 YEARS.




According to Richard Pacheco, Director of Marketing and Compliance for the John Stewart Company, the apartments at Burgess Point are targeted to families whose income is between 50 and 60 percent of the area’s median. “That means two bedroom apartments are available at a rent of \$923 and three-bedroom units rent for \$1058, which are significantly lower than market rents in the area,” he explains. The John Stewart Company is a for-profit firm that handles housing management, development, and consulting for affordable housing developments throughout California. It coordinated the applicant screening and leasing process for the Benicia Housing Authority in the rent-up of Burgess Point and it is serving as the development’s property manager.

According to Julie Peterson of the Benicia Housing Authority, “the wait for Section 8 vouchers can be as long as ten years. The development of Burgess Point was absolutely critical to meeting the need for affordable housing in the city.” SAHF named the project to honor David Burgess, a longtime Benicia housing advocate who founded Affordable Housing Affiliates (AHA). Among other activities, AHA assists low income workers in purchasing their own home using Section 8 funding.

According to the National Association of Homebuilders, Solano County ranks 186th out of the 191 United States metropolitan areas for affordability. Due to the efforts of activists like David Burgess, as a result of a suit from Legal Services of Northern California calling for more affordable housing, and because of new inclusionary zoning laws, Benicia has moved to facilitate the development of low cost housing by waiving fees and donating land. Merritt President Barney Deasy says “Burgess Point was a terrific project for us because it is an area which has a critical need for affordable housing. It involves a nonprofit developer we have experience with—Solano Affordable Housing Foundation. And it has significant financial support from the Benicia Housing Authority, a combination of factors which helps ensure the long term viability of an affordable housing project.”

Burgess Point was funded by a \$5.1 million equity investment from Merritt Capital’s Fund VIII Partnership. Fund VIII investors are Bank of America, Bank of the West, Fannie Mae, Freddie Mac, Union Bank of California, Washington Mutual, and Wells Fargo Bank. Other financing came from U.S. Bank, the city of Benicia, Benicia Housing Authority and the California Housing Finance Agency.

For more information on Burgess Point Apartments, contact the Solano Affordable Housing Foundation at 707-422-5919. 

Asset Management News

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tion obtained is for the period that would have been covered if the recertification had been done in a timely manner. If the household recertifies as over income on their June 2005 annual recertification date, management will pursue obtaining information for the required January 1st date.

A panel of state agency staff at the Elizabeth Moreland's Second Annual Compliance Conference admitted that none of them were monitoring closely for safe harbors compliance.

Another topic of intense discussion was **IRS Revenue Ruling 2004-82**, which clarifies a host of IRS policies. Of particular interest is the IRS' stance that eviction or termination of tenancy without "good cause" is prohibited during the entire use period. The paragraphs dealing with this issue are most confusing, leading some to feel the provision only required protections for the three years following the termination of the Extended Use Agreement. There may still be some challenges to it. Most of the discussion revolved around what would be considered "good cause." Is it the same as "just cause?" Most tax credit compliance professionals believe that valid business reasons can be considered "good cause." In California, is it valid to act upon lease provisions that require a household to vacate a unit when a household's income exceeds 80% of Area

Median Income? This is the point at which a unit in a property owned by a nonprofit housing organization would be subject to property taxes because it would lose its Welfare Property Tax Exemption. Only your attorney knows for sure. The IRS is requiring all State tax credit agencies to review all Extended Use Agreements by the end of 2004 to make sure this language is in the Agreement. State agencies are fighting to extend the timeline to fulfill that obligation as it places a heavy burden on overstretched staff.

Where, oh where has our 8823 Guide Gone? The IRS had stated that the revised 8823 Guide would be published in October 2004. This Guide will provide guidance to state agencies, owners and managers on IRS expectations for compliance and correction of noncompliance on issues covered on the 8823. Until the Guide is published, everyone involved in tax credit compliance is prohibited from citing language in the Guide in support of their plan of correction. While the Guide will cover a lot, the IRS admits that the Guide will not yet address issues related to full time students and casualty loss. Merritt staff looks forward to the guide's publication as it will provide support for recommending certain procedures to return a tax credit property to full compliance. ①

Community Profile:



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computer and technology center," says Gardner. North Beach Place includes 17,000 square feet of commercial space, underground parking for residents and retailers and is accessible to transit. Built at a total cost of \$106 million, North Beach Place received the largest state and federal tax credit allocation, \$55 million, since the LIHTC program began in 1986.

The JSCo is renovating a 199-unit affordable "at-risk" property in Richmond, California. Working with Community Housing Development Corporation, a Richmond-based nonprofit corporation, and Devine & Gong, an affordable housing consulting and development firm in San Francisco, JSCo acquired the Richmond Townhouses in early 2004. "We refinanced the property's former HUD Section 236 financing and are approximately halfway through a \$10 million rehabilitation of the complex," according to Gardner. The project includes extensive interior and exterior improvements, enhanced security, and a new community building with a computer learning center, management office, security office, kitchen and supportive service space.

For more information on the John Stewart Company and the services it provides, contact Jack Gardner at (415) 345-4400, or access the company's website at www.jsco.net. ①

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