

Memorandum #09-38

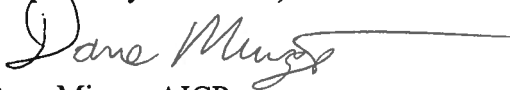
To: Doug Russell, City Manager
From: Dave Mingo, Community Development Director
Date: February 18, 2009
Subject: Consideration of Support for the Sir Charles Apartment Renovation Project

Lewis and Clark Behavioral Health Services, Inc. is proposing to redevelop the Sir Charles Apartments located at 118 East Third Street. Dr. Thomas Stanage and the Health Services Board are in the process of applying for assistance through the South Dakota Housing Development Authority to help make their renovation plans become a reality.

In order to be eligible for assistance, the applicant needs a letter of support from the local governing body. The applicant is not asking for any financial assistance from the City. Dr. Stanage is planning on attending Monday's meeting to answer any questions you have about the project. Attached is the letter of request from Dr. Stanage, the statement of support letter that the Mayor would sign if the action is approved and the "Executive Summary" from the feasibility study that was completed as a part of the project development activities. The entire study is available for review at the City Manager's Office if any commissioner wishes to review additional information about the project.

The City also has a façade easement on this historic building. If the project is approved for funding, the City will be involved in the review process for the improvements under consideration.

Respectfully submitted,



Dave Mingo, AICP
Community Development Director

Recommendation: It is recommended that the City Commission authorize the Mayor to sign the statement of support for the project.

I concur with this recommendation.

I do not concur with this recommendation.



Doug Russell, City Manager

LEWIS & CLARK BEHAVIORAL HEALTH SERVICES, INC.

- Psychiatry
- Clinical Psychology
- Psychiatric Nursing
- Psychiatric Social Work
- Psychiatric Rehabilitation

1028 Walnut
Yankton, SD 57078
Ph: (605) 665-4606
Fax: (605) 665-4673

- Vocational Counseling
- Geriatric Outreach
- Child & Family Counseling
- Chemical Dependency Counseling
- 24-Hour Emergency Service

Thomas S. Stanage, Ph. D.
Executive Director

February 12, 2009

Yankton City Commission

Lewis & Clark Behavioral Health Services (LCBHS) has taken the initial steps to redevelop the Sir Charles Apartments. These apartments are located in Yankton at 118 East 3rd Street. The proposed development would rehabilitate this existing 34-unit section 8 project. We plan on renovating the facility through the Federal Low Income Housing Tax Credit (LIHTC) and HOME programs. To move forward we need to demonstrate in our application for funding to the South Dakota Housing Development Authority (SDHDA) that the project has the support of the City. Applications for funding are due by the end of this month. I have attached an example of a letter of support.


Lewis & Clark Behavioral Health Services is in a unique position to develop this property. The project will qualify as an Enriched Service Project. As such, the project would be able to generate 130 percent tax credits. This represents approximately \$500,000 in equity that would not be available without the enriched service designation.

City staff is in receipt of a market study conducted on behalf of Lewis & Clark Behavioral Health Services for Development for the Disabled by Prior & Associates. The market study points out that there will be no impact on the local low income housing market because the Sir Charles is currently 100 percent occupied. It will not be bringing any new units on line nor will it impact the occupancy rates of exiting projects. I have attached the executive summary from the Market Study.

The project will however allow us to rehabilitate a historic Yankton structure(s), address critical safety issues with the current structure, and enhance the services to tenants.

I am very confident this is a project that will receive funding. It will score highly in a very competitive application process for Tax Credit and HOME Dollars. Please help us by supporting this very worthwhile project.

Sincerely,


Thomas S. Stanage, Ph.D.

Enc.



City of Yankton

410-416 Walnut
P.O. Box 176
Yankton, South Dakota 57078-0176
Phone (605) 668-5221

February 23, 2009

South Dakota Housing Development Authority
221 S. Central Avenue
Pierre, SD 57501

RE: Sir Charles Apartment Rehabilitation Project, Yankton, South Dakota.

I, Daniel L. Specht, Mayor of Yankton, South Dakota, am writing on behalf of the City of Yankton in support of the following proposed development:

Sir Charles Apartments
118 East Third Street
Yankton, SD 57078

Number of Units: 34

The development will be the rehabilitation of existing units targeted to family.

The market study provided by the applicant which was undertaken by Prior & Associates and completed on January 29, 2009 has been reviewed by this governing body and we are in concurrence with the need identified therein.

Attached are the meeting minutes dated February 23, 2009 evidencing approval from the local governing body, the Yankton Board of City Commissioners.

Sincerely,

Daniel L. Specht
Mayor, Yankton, South Dakota

DS/DM



EQUAL OPPORTUNITY EMPLOYER

I. EXECUTIVE SUMMARY

A. Project Description

- The subject of this report is the market feasibility of the rehabilitation of the Sir Charles Apartments, an existing 34-unit Section 8 project located at 118 East 3rd Street in Yankton, South Dakota.
- The subject is a rental apartment complex located in a three-story elevator building that has a brick exterior with stone accents, uniform elevation and flat roof.
- Until recently, the subject targeted only elderly and disabled tenants, and as a result, the majority of its current tenant base is either elderly or disabled. While it will not have a hard set-aside, the project sponsor plans to continue to target and provide accommodations for disabled tenants.
- Additionally, the sponsor plans to partner with local disabled service providers, such as Lewis & Clark Behavioral Health Services, who will refer potential tenants to the subject.



- The building was originally developed in 1875 as a hotel and is on the National Register of Historic Places. The hotel, along with four surrounding structures, were combined, remodeled and converted to the existing Sir Charles Apartments building in 1982 and 1983. The development is currently 100% occupied.
- All 34 of the subject's units receive rental assistance through a Section 8 Housing Assistance Payments (HAP) contract that expires in 2013, allowing tenants to occupy units at rents based on 30% of their income. The Section 8 contract will remain in effect, but be subject to annual renewal after it expires.

- The developer plans to renovate the project through the Federal Low Income Tax Credit (LIHTC) and HOME programs, and convert it into an income-restricted LIHTC project that contains 34 units and 3,510 square feet of office space.
- The developer will spend \$65,976 per unit to upgrade the building exteriors, unit interiors, and common areas.
- Each dwelling will receive new flooring materials, cabinets, vanities, countertops, appliances, doors and hardware.
- The building's interior will receive new paint and the exterior will be tuck pointed and repaired. The roof will be updated and the windows replaced.
- The scheduled common area improvements include replacing all existing floor materials, cabinets, countertops, appliances, doors and hardware. All plumbing fixtures will be removed and replaced and the electrical system will be upgraded to current codes.
- All of the subject's office space will be used by providers of services for the subject's disabled tenants.
- In addition to its standard common amenities, the project sponsor plans to use the subject's office space as offices for various service providers, including case managers and service providers that will serve the subject's disabled tenants.
- Each unit will have central air conditioning, blinds, carpet, a cable TV hook-up, frost-free refrigerator and self-cleaning stove/oven. Some units will also have coat closets.
- The subject will be redeveloped through the Federal Low Income Tax Credit (LIHTC) and HOME programs and targeted to low-income households. The following table describes the subject's unit distribution by type, size, income restriction, maximum allowable net LIHTC rent, contract rent and recommended LIHTC rent.
- The project sponsor will maintain the property's project-based rental assistance so that tenants can continue to occupy units at rents based on 30% of their income.
- If the subject were to lose its project-based rental assistance, the net maximum allowable 40%, 50% and 60% AMI LIHTC rents would represent increases of 130%, 188% and 245% from the average December 2008 tenant rent contributions, respectively.

| SUBJECT UNIT TYPES, SIZES AND RENTS | | | | | | |
|-------------------------------------|-----------------|---------------------|--------------------|------------------------|---------------|------------------------|
| Unit Type | Number of Units | Average Square Feet | % of Median Income | Maximum Net LIHTC Rent | Contract Rent | Recommended LIHTC Rent |
| 1BR/1BA | 3 | 548-948 (630) | 40% | \$428 | \$784 | \$428 |
| 1BR/1BA (HOME) | 1 | 548-948 (630) | 40% | \$428 | \$784 | \$428 |
| 1BR/1BA | 6 | 548-948 (630) | 50% | \$535 | \$784 | \$460 |
| 1BR/1BA (HOME) | 1 | 548-948 (630) | 50% | \$535 | \$784 | \$460 |
| 1BR/1BA | 21 | 548-948 (630) | 60% | \$642 | \$784 | \$460 |
| 1BR/1BA (HOME) | 2 | 548-948 (630) | 60% | \$642 | \$784 | \$460 |

Source: Project Sponsor

B. Site Evaluation

- Yankton is located along Missouri River, U.S. Highway 81 and Highway 50, 57 miles southwest of Sioux Falls, South Dakota and 55 miles northwest of Sioux City, Iowa.
- Yankton has a population of 13,835 and is the seat of Yankton County, which has 21,843 residents.
- The subject is on the corner of two collector streets in an historic commercial area. Its setting has good visibility, above average road access, and good linkage to shopping and employment centers.
- The subject's surrounding land uses include primarily commercial uses. These uses are in average condition and are generally compatible with the subject's multifamily development. However, nearby land uses include several bars and gentlemen's clubs, which may slightly limit the subject's market appeal.
- In comparison to most market area projects, the subject's location is more desirable because it is in the city's historic Downtown area and within walking distance to many restaurants, retail shops and employment opportunities. These nearby amenities offset the adverse effects of some of the subject's adjacent land uses.

C. Market Area

The subject's primary market area (PMA), Yankton County, has 21,843 residents. The subject does not have an extended, or secondary market area

D. Regional Economy

- Yankton County has a regional economy based on government, manufacturing trade, transportation and utilities, and education and health services. The county has had an average annual employment growth rate of 0.6% since 1998.
- During the past year, employment in the county has decreased 0.1%, while employment in South Dakota is projected to increase 1.6% annually through 2016. Employment projections for Yankton County were unavailable.
- In the last month, five of the city's manufacturing companies have announced layoffs totaling approximately 150 to 200 employees. However, the planned construction of the Trans-Canada Pipeline will begin in the second quarter of 2009, and is anticipated to create up to 400 new temporary jobs in the Yankton area.

E. Demographic Trends

- The market area's population is increasing 0.1% per year, but it is projected to lose eight renter households annually through 2014.
- Of the PMA's renter households, 51% have one person, 23% two, 20% three or four, and 7% have five or more.

- The project, with rents set at the maximum allowable LIHTC levels, will appeal to households with annual incomes between \$12,840 and \$27,400, a group that comprises 29.8% of the PMA's renter households.
- The subject, without its HAP contract, will need to capture 7.1% of the income- and size-qualified renters within its target income range to attain full occupancy, and 2.5% of the income- and size-qualified renters if it maintains its project based-rental assistance.
- Without its project-based rental assistance, the subject's required capture rate is attainable, as evidenced by the large ratio of rent-overburdened renter households and relatively low penetration rate for LIHTC units (including the subject). However, the maximum allowable 50% and 60% AMI rents, which are over the Section 8 payment standards, will not allow it to fill these units with Section 8 voucher-holders, which would increase its target income band substantially.
- With its project-based rental assistance, the subject's required market share is achievable because it is 100% occupied, will not displace any tenants during renovations and will not add any new units to the PMA's rental housing inventory.
- The existing LIHTC units, not including deeply-subsidized LIHTC units, in the PMA have a penetration rate of 21.5%. Completion of the subject and all other units in the development pipeline will increase the penetration rate to 28.6%.
- The PMA's level of demand is not sufficient to absorb the 32 new rental units (excluding the subject) in its development pipeline. However, the subject is a rehabilitation of an existing project that is 100% occupied and will not increase the PMA's rental housing inventory. Therefore, its renovation will have no impact on the occupancy levels of existing projects.

F. Housing Trends

- From 1998 to 2007, permit-issuing jurisdictions in Yankton County authorized the construction of 943 new residential dwellings. Multifamily permits averaged 29 units per year. From 2005 to 2007, 43% of the multifamily housing starts occurred and averaged 42 per year.
- The rate of single-family construction in the county has leveled off since 2005 due to the sub-prime mortgage crisis, but multifamily development has remained fairly steady. Over the last three years, 126 multifamily permits, or an average of 42 permits per year, were issued in the county.
- The PMA has added approximately 25 new rental units per year since 2005. The income-restricted project that reported lease-up information had an absorption rate of approximately ten units per month with the use of concessions.
- In addition to the subject's rehabilitation, a 32-unit market-rate development that will not compete directly with the subject for tenants is under construction.
- During the past year, four surveyed projects reported decreases in vacancies and seven reported no change.

- In January 2009, the average vacancy rate at 11 surveyed income-restricted, market-rate and deeply-subsidized apartment projects in the PMA was 5.9%, including 0.6% in market-rate projects, 7.8% at LIHTC properties, and 10.6% at deeply-subsidized projects. The subject was 100% occupied.
- Two surveyed projects maintained waitlists with approximately ten applicants each. One project is market-rate development and the other is a deeply-subsidized age-restricted project.
- When the subject comes online in 2011, there will be an overall surplus of 69 rental units, which is not sufficient to absorb the 32 new rental units (excluding the subject) in the PMA's development pipeline.
- Completion of the market-rate units that are under construction in the PMA will cause vacancy rates to increase over the next two years. However, because the subject is 100% occupied and will not add new units, its rehabilitation will have no impact on the occupancy rates of existing apartments.
- Of the six surveyed projects without deep subsidies, four reported rent increases between \$15 and \$40 during the past year, one decreased rents by \$7 due to a change in the local utility allowance, and one reported no change in rents.
- Of the eleven surveyed rental projects, including the subject, none were offering concessions in January 2009.

G. Analysis of Comparable and Competing Rental Properties

- The subject's unit mix of 100% one-bedroom dwellings is appropriate for the PMA because 73% of renter households have one or two persons and the subject will target disabled tenants, who typically consist of one- or two-person households.
- The subject's one-bedroom unit sizes range from 548 square feet to 948 square feet, with an average unit size of 630 square feet. The subject's average one-bedroom unit size is 3.5% smaller than the average surveyed one-bedroom unit size.
- The subject's amenity package is comparable to better than most surveyed projects, which often lack a community room or picnic area.
- The subject's unit features are inferior to newer LIHTC and Class B market-rate projects, but comparable to older, Class C market-rate developments, which often offer more storage space, but lack central air conditioning.
- Its tenant utility costs are lower than surveyed LIHTC and market-rate developments, but comparable to most surveyed deeply-subsidized projects.
- Overall, the subject's improved condition, location, design, amenities, lower than average tenant utility costs and generally larger unit sizes will allow it to continue to compete effectively for tenants over the long term.

- If the subject had no income or rent restrictions, it could attain one-bedroom rents ranging from \$539 to \$599, with an average of \$551. The reason for the range is the subject’s range in unit sizes. The net maximum allowable 40% and 50% AMI rents range from 1% to 24% below the derived market rents, while the maximum 60% AMI rents are 7% to 19% above.

| SUBJECT'S PRO FORMA AND DERIVED MARKET RENTS | | | | | |
|---|----------------|--------------|-------------------------------|---------------------|-------------------------|
| <i>Unit Type</i> | <i>Sq. Ft.</i> | <i>% AMI</i> | <i>Maximum Net LIHTC Rent</i> | <i>Market Rent</i> | <i>% Difference</i> |
| 1BR/1BA | 548-948 (630) | 60% | \$642 | \$539-\$599 (\$551) | 7.2%-19.1% (16.5%) |
| 1BR/1BA | 548-948 (630) | 50% | \$535 | \$539-\$599 (\$551) | -0.7%- -10.7% (-2.9%) |
| 1BR/1BA | 548-948 (630) | 40% | \$428 | \$539-\$599 (\$551) | -20.6%- -23.6% (-22.3%) |

Source: Analysis by Prior & Associates

- The experience of comparable LIHTC projects are often a better gauge of what LIHTC rents the subject can achieve.
- Surveyed non-deeply-subsidized LIHTC projects, which were built in the 2000s and are in average to above average condition, attained weighted average 60% AMI rents that were 34% lower than the surveyed average Class B market-rate rents attained in the PMA.
- This market advantage suggests that the maximum allowable one-bedroom 60% AMI rent, which is only 3% lower than the average one-bedroom Class B market-rate rent, does not have an adequate market advantage and is therefore not attainable without project-based rental assistance.
- Without its project-based rental assistance, the subject could attain 50% and 60% AMI one-bedroom rents of \$460. The net maximum allowable 50% and 60% AMI rents are 16% and 40% higher, respectively, than the attainable LIHTC levels and do not provide a good value to potential tenants.

| SUBJECT'S PRO FORMA AND ATTAINABLE LIHTC RENTS | | | | | |
|---|------------------------|--------------|-------------------------------|------------------------------|---------------------|
| <i>Unit Type</i> | <i>Average Sq. Ft.</i> | <i>% AMI</i> | <i>Maximum Net LIHTC Rent</i> | <i>Attainable LIHTC Rent</i> | <i>% Difference</i> |
| 1BR/1BA | 630 | 40% | \$428 | \$428 | 0.0% |
| 1BR/1BA | 630 | 50% | \$535 | \$460 | 16.3% |
| 1BR/1BA | 630 | 60% | \$642 | \$460 | 39.6% |

Source: Analysis by Prior & Associates

H. Conclusions and Recommendations

- When the subject’s renovations are complete, the market area will have a total surplus of 19 units in the subject’s LIHTC target income range, not considering the subject’s units. While this does not show a need for additional units in the market, the subject is a rehabilitation project that is currently 100% occupied with a relocation plan in place that will not displace any of the current tenant base during the renovations, and will therefore not have any impact on the occupancy rates of other projects in the PMA.

- Without project-based rental assistance, the net maximum allowable 50% and 60% AMI rents are not attainable. The sponsor should set the subject's 50% and 60% AMI rents to \$460, an amount that is attainable based on the experience of other non-deeply-subsidized LIHTC projects in the PMA.
- If the subject lost its project-based rental assistance, the recommended 50% and 60% AMI rents would allow it to compete effectively with other LIHTC projects.
- The recommended rents, which are below the Housing Payment Standards, would allow the subject to attract supplemental demand from non-income-qualified renters who have Housing Choice Vouchers.
- The subject can achieve its required market share because:
 - It is currently 100% occupied and its HAP contract will remain in effect through 2013, allowing its tenants to continue to pay 30% of their income for rent. Additionally, the project's sponsor will continue to target disabled tenants and provide services to those tenants from within the subject's office space.
 - Its design, features and tenant services will allow it to compete effectively for tenants over the long-term, particularly considering its specialized target market.
 - Without project-based rental assistance, the net maximum allowable 50% and 60% AMI rents are not attainable. The sponsor should set the subject's 50% and 60% AMI rents to \$460, an amount that is attainable based on the experience of other non-deeply-subsidized LIHTC projects in the PMA.
 - If the subject lost its project-based rental assistance, the recommended 50% and 60% AMI rents would allow it to compete effectively with other LIHTC projects.
 - The recommended rents, which are below the Housing Payment Standards, would allow the subject to attract supplemental demand from non-income-qualified renters who have Housing Choice Vouchers
- If the sponsor had to relet the subject's units, it would likely fill approximately ten units per month and be 100% occupied within four months. Additionally, if the subject lost its project-based rental assistance, its absorption rate would likely be somewhat slower, between five and seven units per month. The project may need to use concessions during this lease-up period.
- After it completes the rehabilitation, the subject should match its historic occupancy level and have an average stabilized annual occupancy rate above 95%, an annual turnover rate of approximately 90%, and average yearly rent increases of approximately 2%.