



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Leslye Corsiglia

SUBJECT: SEE BELOW

DATE: May 5, 2004

Approved

Date

COUNCIL DISTRICT: 3
SNI Area: Five Wounds/
Brookwood Terrace

SUBJECT: APPROVAL OF A FUNDING COMMITMENT IN AN AMOUNT NOT TO EXCEED \$360,000 FOR CITY SUBORDINATE MORTGAGES FOR THE BONITA COURT DEVELOPMENT

RECOMMENDATION

It is recommended that the City Council adopt a resolution approving a funding commitment of up to \$360,000, to provide City second mortgages to low-income households to assist in the purchase of condominium homes in the Bonita Court development located on the east side of Bonita Court adjacent to the fly-over connector between southbound Highway 101 and northbound Interstate 280.

BACKGROUND

Bonita Condos LLC (“Sponsor”), an entity formed by Vitoil, Inc., has submitted a request for funding of City second mortgages for low-income households to purchase homes in the 31-unit Bonita Court development.

The units are now under construction. They are scheduled for completion during summer 2004. The Sponsor is seeking a funding commitment from the City in order to market the subordinate mortgage financing when the units become available for sale.

Bonita Court is located on the east side of Bonita Court adjacent to the fly-over connector between southbound Highway 101 and northbound Interstate 280. The project is located within the Five Wounds/Brookwood Terrace SNI redevelopment area and is subject to the redevelopment inclusionary housing requirement. The developer will be required to make at least 20% of the units (6) affordable to moderate-income households (those earning no more than 120% of Area Median Income) or pay an in-lieu fee, subject to City Council approval. The

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recommended action would enable twelve of the unrestricted units to be made affordable to low-income homebuyers. Consistent with City council policy, the required inclusionary units will not be assisted with Housing Department funds.

The City Council previously approved the allocation of \$5 million for subordinate mortgages to purchasers of homes located in the KBHome sponsored Tuscan Hills and Midtown Plaza developments. Based on negotiations with KBHome and the successful marketing of these developments, the amount committed has been reduced, resulting in a \$2.1 million savings to the City. A portion of these savings is available for Bonita Court.

ANALYSIS

The proposed project consists of 21 two-bedroom, two bath condominium homes priced at an estimated \$325,000 and 10 three-bedroom two-bath such homes priced at an estimated \$350,000. At these price levels, the development provides a unique opportunity to expand the supply of ownership housing to lower-income households. The units are priced at levels that are affordable to low-income households and moderate-income households earning no more than 100% of Area Median Income (AMI). The homes, through conventional financing, would be affordable to families earning about \$80,000-\$85,000 per year, or 71-100% of AMI, depending on household size. The proposed \$30,000 City loans, when combined with readily available non-City assistance, would enable low-income households earning an estimated \$54,000-\$59,000, or 51%-70% of AMI to purchase at Bonita Court. The proposed \$360,000 allocation would enable an estimated 12 such households to purchase units that would be in addition to the seven inclusionary housing units.

Neighborhood Housing Services Silicon Valley (NHSSV) will assist the developer with both the home sales and financing the purchases and has available a pool of mortgage-ready lower-income buyers who could purchase the homes. It is equipped to provide the various first mortgage and downpayment assistance programs that can be combined with the proposed City assistance.

Housing Funding Strategy

On February 24, 2004, the City Council approved the "Housing Program Funding Strategy and Project Selection System for the City's affordable housing development program. The Strategy states: "For ownership housing, the Department is shifting its emphasis from funding large projects in which only a portion of the units are made affordable to ones which targets small, infill sites appropriate for nonprofit, self-help and similar developers." The proposed assistance for buyers of homes in Bonita Court is consistent with this change in emphasis.

Located on a small infill site within the Five Wounds/Brookwood Terrace SNI Area, Bonita Court will further the revitalization of this area by providing homeownership opportunities for low and moderate-income residents. In addition, the project is consistent with the Five Wounds/Brookwood Terrace *Neighborhood Improvement Plan* and the Plan's guidelines for

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residential development.

Attached is a brief summary of the development and the proposed terms of the City loans.

COST IMPLICATIONS

Funds are available in the Housing Department's Fiscal Year 2003-04 Low and Moderate Income Housing Fund (Fund 443).

PUBLIC OUTREACH

In accordance with the Planned Development Rezoning process, the Planning Commission held a public hearing on November 20, 2002. A notice of the public hearing was distributed to the owners and tenants of all properties located within 500 feet of the project site, and a public hearing notice was published in a newspaper of record two weeks prior to the hearing. In addition, a community meeting for the project was held on October 2, 2002. The City Council approved the PD rezoning on December 17, 2002.

COORDINATION

This memorandum was coordinated with the Office of the City Attorney.

CEQA

Not applicable. Not a Project.

LESLYE CORSIGLIA
Director of Housing

Attachment

Attachment

Project Description

Total Units: 31 (21 two-bedroom, two-bath units and 10 three-bedroom two-bath units)
Type: Two-story attached town homes
Size Range: 1,010 sq. ft. two-bedroom units and 1,231 sq. ft. three-bedroom units
Estimated Prices: \$325,000 for two-bedroom units and \$350,000 for three-bedroom units.
Garage/Carports: 58 surface lot spaces will be available.

Proposed Loan Terms and Conditions

Eligible Borrowers: Lower-income households (those currently earning no more than 80% of Area Median Income (AMI))
Loan Amount: Up to \$30,000
Interest Rate: 0%
Term: 45 years
Security: Deeds of Trust
Repayment: Principal only payments, which may be deferred. Lump sum balloon at end of term or on sale to non-qualifying households, including principal and shared equity, if any.
Affordability: 45-year affordability restrictions with an equity-share buyout provision, for low and moderate-income households, which restrictions may be subordinated to senior lenders.
Other Conditions: Standard conditions and documentation for the Housing Department would apply.