

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Leslye Krutko

SUBJECT: SEE BELOW

DATE: December 11, 2008

Approved

Date

12/11/08

COUNCIL DISTRICT: 3
SNI AREA: N/A

SUBJECT: APPROVAL OF A FUNDING COMMITMENT FOR SITE ACQUISITION FOR THE FIRST AND ROSEMARY FAMILY APARTMENTS PROJECT LOCATED AT THE SOUTHEAST CORNER OF ROSEMARY AND NORTH FIRST STREETS

APPROVAL OF A FUNDING COMMITMENT FOR SITE ACQUISITION FOR THE FIRST AND ROSEMARY SENIOR APARTMENTS PROJECT LOCATED AT THE SOUTHEAST CORNER OF ROSEMARY AND NORTH FIRST STREETS

SUPPLEMENTAL REPORT

REASON FOR SUPPLEMENTAL REPORT

The purpose of this Supplemental Memorandum is to update the City Council on the result of recent negotiations with the developer regarding acquisition financing sources and security positions for the proposed Rosemary Family and Seniors projects.

BACKGROUND

Site Acquisition Financing

Since the submission of the original requests to the City Council for funding commitments for site acquisition for the First and Rosemary Family and Senior Apartments projects on November 25, 2008, ROEM, the Housing Department, and the seller further clarified business terms of the seller carry-back loan of \$3,295,000 for the entire site.

The City's Affordability Restrictions will be recorded in first position on title, with the Deed of Trust evidencing the seller carry-back loan in second position and the City's Deed of Trust evidencing the City's acquisition loan in third position. To compensate for the risk associated with the City's deed

HONORABLE MAYOR AND CITY COUNCIL

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**Subject: Approval of Funding Commitments for Site Acquisition for the First and Rosemary Family and Senior Apartments
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being in third position, the Housing Department is requiring a personal guaranty from Mr. Robert Emami, president of ROEM Development Corporation, to repay the seller carry-back loan in the event construction funding is not available to retire the debt by the time the note comes due in two years. Receipt of this guaranty will be required prior to the City's funding of the acquisition loan.

ANALYSIS

The seller carry-back loan is advantageous to the City because the Housing Department is carefully managing its cash position due to current financial market conditions. This additional source of funds to pay for site acquisition therefore reduces the City's commitment and ensures that the City will not have to invest additional funds in the future to maintain control of the property.

In the event that loan funds are not available to takeout the first deed of trust within two years, ROEM Development will be able to maintain control of the site by guaranteeing repayment of the seller carry back. If the developer is unable to proceed with the proposed project, the City will have the option to take back the property and issue a Request for Proposals for another developer to ensure that affordable housing is developed on this site. The fact that the City's Affordability Restrictions are recorded in first position ensures that this site will be used for the development of affordable housing units.

The total acquisition price for the entire site is \$13,000,000. An appraisal of the Family portion of the site done by Hulberg & Associates on November 12, 2008 indicated an "As Is" market value of \$9,200,000. Also, an appraisal of the Senior portion of the site done by Hulberg & Associates on November 14, 2008 indicated an "As Is" market value of \$5,040,000. Therefore, the "As Is" market valuation of the entire site is \$14,240,000, which results in an overall Loan-to-Value of 93%. This LTV is within the City's guidelines.


The acquisition of this site is critical in meeting the demand and need for affordable housing in North San Jose.

COORDINATION

Preparation of this report was coordinated with the City Attorney's Office.

CEQA

CEQA: EIR resolution 72768 adopted June 21, 2005, file number PDC07-101.


LESLYE KRUTKO
Director of Housing

For questions please contact LESLYE KRUTKO, DIRECTOR OF HOUSING, at 535-3851.