



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Leslye Krutko

SUBJECT: SEE BELOW

DATE: February 9, 2009

Approved

Date

2-13-09

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

SUBJECT: APPROVAL OF A FUNDING COMMITMENT FOR SITE ACQUISITION OF THE SAN ANTONIO FAMILY APARTMENTS PROJECT

RECOMMENDATION

It is recommended that the City Council adopt a resolution approving a funding commitment of up to \$5,200,000 of Low and Moderate Income Housing Funds (20% Funds) to ROEM Development Corporation ("ROEM"), or its legal affiliate, for a land acquisition loan for future development of the 84-unit San Antonio Family Apartments, an affordable multifamily rental project located at 1350 E. San Antonio Street to be made available to extremely low-income (ELI) and very low-income (VLI) households.

OUTCOME

Approval of the recommended action will enable ROEM to acquire the site for the development of 84 affordable rental units to be made available to extremely low-income (ELI) families at or below 30% of Area Median Income ("AMI"), very low-income (VLI) families at or below 50% AMI, and one unrestricted manager's unit.

Additionally, approval of the recommended acquisition loan will enable Neighborhood Housing Services of Silicon Valley to sell the property and strengthen its financial position. NHSSV is considered a valued partner with the City through its contract with the Housing Department to provide homebuyer services to low- and moderate-income homebuyers, thereby furthering the goal of the City to provide affordable housing.

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BACKGROUND

On July 1, 2008, ROEM submitted a Notice of Funding Availability (NOFA) application for an acquisition/construction/permanent loan in the amount of up to \$10,625,000 for the development of the project, including \$5,200,000 for land acquisition.

The subject property is currently owned by Neighborhood Housing Services Silicon Valley, Inc. (NHSSV). In order to become more financially self-sufficient, NHSSV purchased the site in 2005 as part of its plan to expand operations to affordable housing development. However, due to present economic conditions and NHSSV's desire to improve its financial position, it has elected to sell the subject property.

ANALYSIS

Project Description

The subject 1.92-acre site is located at 1350 E. San Antonio Street, within the Five Wounds/Brookwood Terrace Strong Neighborhoods Initiative (SNI) area, one and one-half miles east of the City downtown core. The property is easily accessible from two major highways, Highway 101 and 280, both located within one-half mile of the site.

The developer proposes to construct a project consisting of a three-story structure containing 84 residential units above a one-level subterranean garage with 150 parking spaces. The project will have 21 units that will be affordable to extremely low-income families, 62 units affordable to very low-income families, and one unrestricted manager's unit. The project plans to offer 28 one-bedroom units, 39 two-bedroom units, and 17 three-bedroom units.

Since the subject property is in a Redevelopment / SNI Area, initial Affordability Restrictions will be recorded during the acquisition phase that will adhere to the City's minimum Inclusionary Housing Policy.

Strengths of the Proposed Project

The proposed project has several strengths making it appropriate for a City loan commitment. The property is in an SNI project area, in need of revitalization, and will be a catalyst for additional neighborhood improvements. The subject's close proximity to both the Downtown core and to neighborhood services makes the area conducive to further residential development.

Demand for affordable rental units on this site is expected to be strong given the proposed Project's affordability, its close proximity to the downtown core, and its high percentage of large units. Two-thirds of the units will offer two- and three-bedrooms.

In addition, the proposed project will offer deep affordability to families who are expected to be employed in low-wage employment positions that are vital to the economy. The proposed project

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will contain Green building features in accordance with the City's emphasis on supporting environmentally-sensitive development. It will also be a non-smoking building.

Project Feasibility

Staff reviewed the proposed development pursuant to the criteria in the Project Selection System for the City's affordable housing development program as published in the current Notice of Funding Availability (NOFA). Although the project did not meet the required 70-point threshold score for the City's NOFA, Housing Department staff is currently updating the NOFA criteria to better fit with current market conditions and availability of other subsidy funding. The project's land acquisition is nonetheless recommended for funding given its level of subsidy request and alignment with the Housing Department's priorities.

The market study and appraisal completed for the project substantiates an expected low vacancy rate and expected high demand for the project's affordable units. The City's \$5.2 million acquisition loan to acquire the property is supported by an appraisal dated August 21, 2008.

Staff expects that the project could start construction as early as Summer 2009, provided that Low Income Housing Tax Credit funds and additional City funds are available. Due to current market conditions, the Housing Department is carefully managing its cash position. As a result, the Department is only requesting authorization for land acquisition funding at this time. As liquidity returns to the credit markets, and the cost to obtain additional financing decreases, the Housing Department plans to return to the City Council to seek approval of a construction/permanent funding commitment for the project.

While tax credit financing may not be available at the desired time, staff feels that it is important to control this property, through our lien and 55-year affordability restrictions to be recorded at closing, in order to preserve its use for future affordable housing.

Accordingly, the Housing Department recommends that this Project be given an acquisition funding commitment by the City Council of up to \$5,200,000.

Specific business terms for the acquisition loan will be approved pursuant to the Director's Delegation of Authority ordinance, located in Chapter 5.06 of Title 5 of the San José Municipal Code.

EVALUATION AND FOLLOW-UP

The Housing Department plans to return to the City Council with a recommendation for construction/permanent financing once the Department's cash position has improved.

POLICY ALTERNATIVES

To arrive at this proposal, staff considered the following options:

Alternative #1: Deny the requested acquisition funding commitment.

Pros: The funds being requested could be used for other affordable housing projects and programs. The project needs to evidence that it is or can become financially feasible

Cons: The proposed funding commitment will assist in revitalizing the Five Wounds / Brookwood Terrace SNI area. Additionally, there is continued strong demand for large family housing close to transportation that is affordable to ELI and VLI working households. NHSSV would have to find another buyer for this site which would further deteriorate its financial situation.

Reason for not recommending: The proposed project will help to meet the demand for family housing that is affordable to ELI and VLI households and will help the City to fulfill its affordable housing goals.

Alternative #2: Delay the requested acquisition funding commitment until City funds for a construction/permanent loan are also available.

Pros: Approving financing for all stages of the project at one time minimizes workload for Staff and the City Council.

Cons: Delay in closing on the land acquisition would adversely impact the financial position of NHSSV, a valuable City partner that is providing important housing purchase counseling work at this time of high foreclosure rates in the for-sale markets.

Reason for not recommending: Timely acquisition of the land will support NHSSV's financial health.

PUBLIC OUTREACH/INTEREST

Criterion 1: Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**

Criterion 2: Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

Criterion 3: Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a

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Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This item meets Criterion 1, Requires Council action on the use of public funds equal to \$1 million or greater. This Memorandum will be posted to the City's website for the March 3, 2009 City Council Agenda.

COORDINATION

This report has been coordinated with the Office of the City Attorney.

FISCAL/POLICY ALIGNMENT

This expenditure is consistent with the Housing Department's *Five-Year Investment Plan for Fiscal Years 2007/08-2011/12* in increasing the supply of affordable housing, and with the City's *Consolidated Plan, 2005-10* in providing units for very low- and extremely low-income households and for large renter households.

COST SUMMARY/IMPLICATIONS

1. **COST OF PROJECT:**

<u>USES</u>	<u>AMOUNT</u>
Site Acquisition	\$5,200,000
Acquisition Soft Costs	150,811
TOTAL	\$5,350,811

2. **COST ELEMENTS OF CITY LOAN AMOUNT:**

<u>USES</u>	<u>AMOUNT</u>
Site Acquisition	\$5,200,000
TOTAL	\$5,200,000

3. **SOURCE OF FUNDING:** Fund 443—Low- and Moderate-Income Housing Fund.

4. **FISCAL IMPACT:** No ongoing fiscal impact.

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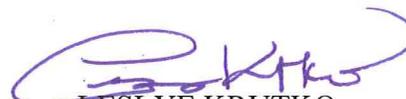
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BUDGET REFERENCE

Fund #	Appn. #	Appn. Name	Total Appn.	Amt. For Contract	2008-2009 Adopted Operating Budget (Page)	Last Budget Action (Date, Ord. No.)
443	0070	Loans, Grants & Site Acquisitions	\$90,000,000	\$5,200,000	XI-52	6/24/08, 28349

CEQA

CEQA: Mitigated Negative Declaration, file number PDC08-038.


LESLYE KRUTKO
Director of Housing

For questions, please contact LESLYE KRUTKO, DIRECTOR at 408-535-3851.

Attachment



ATTACHMENT 1
Anticipated Project Timeline

Application submitted to the Federal Home Loan Bank's AHP Program	Spring 2009
Estimated City Council approval of Construction/Permanent Funding	Spring 2009
Application to California Debt Limit Allocation Committee (CDLAC)	Spring 2009
Notification of Award from CDLAC	Summer 2009
Anticipated award of FHLB AHP Funding	Summer 2009
Estimated Date of Construction Loan Closing	Summer 2009
Estimated Start of Construction	Summer 2009
Estimated Date of Construction Completion	Fall 2010
Estimated Conversion to Permanent Period	Winter 2010

ATTACHMENT 2

Site Map

