



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Leslye Krutko
Director of Housing

SUBJECT: SEE BELOW

DATE: March 16, 2009

Approved

Date

3-19-09

COUNCIL DISTRICT: 3
SNI AREA: N/A

SUBJECT: DOWNTOWN HIGH-RISE SECOND MORTGAGE PROGRAM

RECOMMENDATION

It is recommended that the City Council adopt a resolution authorizing the Director of Housing to reallocate certain funds from the March 2008 Notice of Funding Availability (NOFA) to make second mortgage loans in an aggregate amount not to exceed \$700,000 to homebuyers of high-rise condominium projects in downtown San José.

OUTCOME

The City Council's approval of this action will facilitate homeownership opportunities for new homebuyers in the City's downtown core.

BACKGROUND

Over the last several years, the City has made several forward commitments of second-mortgage assistance to homebuyers in new construction for-sale housing projects. Due to the large number of requests from builders for second mortgage funds for homebuyers in 2007 and 2008, the City Council approved the Housing Department's request to create a Second Mortgage Program for buyers of homes in specific development projects on March 4, 2008. A NOFA was subsequently issued later that month. Through the NOFA, eleven new housing communities were awarded an aggregate of \$10 million in second mortgage commitments for homebuyers throughout the City. One of the eleven projects included the City Heights development in downtown San José. City Heights is a 124- unit high-rise condominium project located at 175 West San James Street that was built by Barry Swenson Builders and completed in 2007. In 2008, the Housing Department made a forward commitment of \$1 million to homebuyers at City Heights via the second mortgage NOFA.

Under the terms of the agreements established with each builder awarded funding, the City's funding commitments were to be available for one year. Additionally, the agreements stipulated that the City could amend commitment amounts at any time if the Housing Department determined that the builder was not making sufficient progress toward utilizing their full allocation by the deadline. Since the awards were made, the Housing Department has twice amended commitment amounts for homebuyers in projects with exceptionally high or low demand from income-eligible homebuyers. Only two income-eligible households have purchased homes at City Heights through this program to date. Accordingly, Housing Department staff amended the award to reduce the commitment amount several times in 2008 due to sluggish sales. The unused portion of the City Heights commitment is approximately \$700,000.

ANALYSIS

Since the NOFA funding commitments were made, the Housing Department has received several new inquiries from builders seeking additional commitments for second mortgage assistance funds for prospective homebuyers in each of their projects. Some of these requests have come from developers of downtown high-rise condominium projects. These projects are experiencing the same decline in prospective buyers and more stringent lending requirements that are negatively affecting home sales throughout the entire housing market.

The second mortgage assistance at City Heights is set to expire on April 25, 2009. The Housing Department now proposes that the Downtown High Rise Second Mortgage Program be established to include all four high-rise developments in downtown San José. Besides City Heights, this includes the 88, the Axis, and the 360 Residences. These developments are located in the Almaden Gateway, Market Gateway, Julian Stockton, and San Antonio Plaza Redevelopment Project Areas. This action will provide additional housing opportunities for low- and moderate-income homebuyers and enhance the ability of downtown high-rise housing developers to make specific marketing and outreach efforts towards first-time homebuyers in these income categories. Under the City's proposed Second Mortgage Program, the maximum per-unit loan to income-eligible homebuyers is set at \$50,000 for studio and 1-bedroom units, and up to \$60,000 for 2-3 bedroom units.

The Strategy 2000 Downtown Development Plan, commissioned by the San Jose Redevelopment Agency, and adopted by the City Council in June 2005, identified residential living in downtown as a high priority for the City. The Plan describes high-density mixed-income housing as a key component of the successful revitalization of the downtown. The recommended action to make up to \$700,000 in downpayment assistance funds available to low- and moderate-income homebuyers will help to fulfill this priority.

EVALUATION AND FOLLOW-UP

No further City Council action is required at this time. The Department will monitor and track the number of households assisted through the program and production data will be included in the Homebuyer Program Quarterly Report that is posted to the Housing Department website.

POLICY ALTERNATIVES

To arrive at this proposal, staff also considered the following option:

Alternative #1: Do not approve second mortgage loans to homebuyers of high-rise condominium projects in downtown San José.

Pros: The City could reallocate the \$700,000 to toward downpayment assistance to homeowners in other projects.

Cons: If funds are not reserved for homebuyers in downtown high-rises, the City will lose the opportunity to facilitate its goal of increasing homeownership in the downtown. Foregoing the expansion of eligible projects will also fail to increase the pace at which available funds are utilized to spur homebuyer activity at this critical juncture in the housing market.

Reason for Not Recommending: Residents are needed for downtown to become the vibrant urban downtown envisioned by the Strategy 2000 Downtown Development Plan. Investing in homebuyer programs in this weak housing market will enable low- and moderate-income homebuyers to purchase in the downtown core and occupy vacant housing units.

PUBLIC OUTREACH/INTEREST

The item does not meet any of the criteria below, however; this item will be posted on the internet via the City Council's website for the April 7, 2009 meeting.

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

COORDINATION

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

FISCAL/POLICY ALIGNMENT

This recommendation is aligned with the Strategy 2000 Downtown Development Plan adopted by City Council on June 21, 2005. The Plan advocates for the creation of high-density mixed income housing, affordable to very low-, low-, and moderate-income households.

COST SUMMARY/IMPLICATIONS

1. **AMOUNT OF RECOMMENDATION/COST OF PROJECT:** \$700,000
2. **COST ELEMENTS:** 12 to 14 loans at approximately \$50,000 each
3. **SOURCE OF FUNDING** 20% Low- and Moderate-Income Housing Fund
4. **FISCAL IMPACT:** No ongoing fiscal impact as a result of this action.

BUDGET REFERENCE

Fund #	Appn #	Appn. Name	Total Appn	Amt. for Contract	2008-2009 Adopted Operating Budget Page	Last Budget Action
443	3608	Second-Mortgage Loan Commitment	\$7,880,000	\$700,000	XI-52	10/21/2008

CEQA

Not a project.


 Leslye Krutko
 Director of Housing

For Questions Contact: Leslye Krutko, Director of Housing at (408) 535-3851.