



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Leslye Krutko

**SUBJECT:** SEE BELOW

**DATE:** April 27, 2009

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5-3-09

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

**SUBJECT: APPROVAL OF PREDEVELOPMENT, CONSTRUCTION, AND PERMANENT FUNDING COMMITMENTS FOR THE BROOKWOOD TERRACE FAMILY APARTMENTS PROJECT (FORMERLY SAN ANTONIO FAMILY APARTMENTS)**

## RECOMMENDATION

It is recommended that the City Council:

1. Adopt a resolution approving a construction/permanent loan commitment of up to \$10,893,000 for Brookwood Terrace Family Apartments, L.P., a California limited partnership, in which ROEM Development Corporation ("ROEM" or "Sponsor") is the general partner and developer, for development of the 84-unit Brookwood Terrace Family Apartments ("Project"), an affordable multifamily rental project to be located at 1350 E. San Antonio Street and made available to extremely low-income (ELI) and very low-income (VLI) households.
2. Adopt a resolution approving a funding commitment of up to \$500,000 for a predevelopment loan to this Project, to be repaid from the construction/permanent loan.
3. Adopt a resolution allowing the project to exceed the City Council policy limiting combined Loan-to-Value ratios to 100%.

## OUTCOME

The City Council's approval of these actions will facilitate the construction of 84 rental housing units affordable to extremely low- and very low-income households and one unrestricted manager's unit at the Brookwood Terrace Family Apartments project ("Brookwood") located at 1350 E. San Antonio Street. Approval of the recommended funding commitment for this project

HONORABLE MAYOR AND CITY COUNCIL

April 27, 2009

**Subject: Approval of a Funding Commitment for Construction and Permanent financing for the Brookwood Terrace Family Apartments**

Page 2

at the May 19, 2009 City Council meeting is necessary in order for the Sponsor to apply to the California Debt Limit Allocation Committee (CDLAC) for an allocation of Tax-Exempt Multifamily Bonds and 4% Low-Income Housing Tax Credits by the May 22, 2009 deadline.

## **BACKGROUND**

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

The City Council approved a Planned Development rezoning on December 16, 2008 for up to 84 multifamily residential units. A Planned Development permit request for the project has been filed. On March 2, 2009, the City Council approved a land acquisition loan of \$4,600,000. Because of a lack of sufficient funding at that time, the construction/permanent loan approval request was separated from the acquisition loan request and deferred until funding was available.

ROEM purchased the site in March 2009 using the City's land acquisition loan. At that time, the City recorded 55-year Affordability Restrictions requiring 92 units affordable to moderate-income households at or below 120% of Area Median Income, and one unrestricted manager's unit.

### **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, 1.5 miles East of the City downtown core. The property is easily accessible from two major highways, Highway 101 and 280, both located within 0.5 miles 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 149 parking spaces. The project plans to offer 21 units affordable to ELI families, 62 units affordable to VLI families, and one unrestricted manager's unit. The incomes for future residents are expected to range from \$22,300 to \$57,300. The planned unit mix includes 18 one-bedroom units, 51 two-bedroom units, and 15 three-bedroom units.

## **ANALYSIS**

The City Council already approved an acquisition loan for this project in December, and ROEM purchased the land in March. At the time of purchase, the City recorded affordability restrictions on the property in accordance with the requirements of redevelopment law. Since, at that time, the City was only committing funding for land acquisition, it was decided to record moderate-income restrictions to provide the City needed flexibility in the event that the project did not proceed.

April 27, 2009

**Subject: Approval of a Funding Commitment for Construction and Permanent financing for the Brookwood Terrace Family Apartments**

Page 3

As consideration for the additional construction/ permanent funding for the project, at the time the City's construction loan closes, the City will record amended 55-year affordability restrictions on the site that will reflect the actual restricted rent levels affordable to ELI and VLI families.

### Strengths of the Proposed Project

The proposed project has several strengths making it appropriate for a City loan commitment.

The subject site is located in an SNI project area, in need of revitalization, and will be a catalyst for additional neighborhood improvements. Its location also places it in a Qualified Census Tract, making the development eligible for 30% more private equity through the Low Income Housing Tax Credit program, which better leverages the City's funding. 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 inclusion of units for large families. One-quarter of the units will be affordable to individuals or families at or below 30% of the Area Median Income (AMI) with the balance of units affordable to individuals at or below 50% AMI. Fifteen of the units will offer three bedrooms appropriate for large families, which have been identified as a need through the City's Consolidated Plan.

The proposed project will also contain Green building features in accordance with the City's emphasis on supporting environmentally-sensitive development.

In addition to helping the City meet its affordable housing goals, moving this project forward will benefit the City of San José and the local economy. A total of \$434,747 in City fees and \$237,353 in school fees will be paid by the developer at or prior to the expected date for start of construction of October 1, 2009. It is anticipated that the project's construction will create 117 jobs in San José over two years. ROEM anticipates using building material suppliers in Santa Clara County. Support for ROEM is also support for a local business, as ROEM is headquartered in San José.

### 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 70-point threshold score required by 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 construction/permanent loan is nonetheless recommended for funding given its level of subsidy request and alignment with the Housing Department's priorities.

April 27, 2009

**Subject: Approval of a Funding Commitment for Construction and Permanent financing for the Brookwood Terrace Family Apartments**

Page 4

The market study and appraisal completed for the project substantiates an expected low vacancy rate and high demand for the project's affordable units at its projected rents. The City commissioned an appraisal by Carnegie-Blum & Partners, Inc. on April 15, 2009, which demonstrated a completed stabilized value at restricted rents of \$12,550,000. The Loan-to-Value (LTV), including the City loan of \$10,893,000 and permanent first mortgage loan projected to be \$7,856,900, is estimated at 149%. The projected high combined City and senior LTV is mitigated by the fact that the senior lender's projected permanent first mortgage of \$7,856,900 represents a conservative 63% of appraised value with a 15% cushion over the expected senior loan mortgage payments. Senior debt LTV and debt service coverage ratio (1.15) is considered to be a better test of the City's risk, as both indicate a high likelihood that the project will be completed according to schedule.

Specific business terms for the construction/permanent loan and the predevelopment 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 Department posts quarterly reports on the status of its subsidized construction projects to its website, [www.sjhousing.org](http://www.sjhousing.org). If approved, the Brookwood Terrace Family Apartments project would be included in these reports.

### **POLICY ALTERNATIVES**

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

**Alternative #1:** *Deny or delay the requested funding commitment.*

**Pros:** The funds being requested could be used for other affordable housing projects and programs.

**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. Additionally, the City already provided funds to the developer to purchase the land. Affordability restrictions have been placed on the property, restricting its development to affordable housing units. The CDLAC deadline for 4% Low Income Housing Tax Credits and bond funds is May 22, 2009. Delaying funding of the project will result in a missed opportunity for State funding resources, and will assure that the project does not start construction in the near future. At this time, there is a real possibility that there will not be a second round of Low-Income Housing Tax Credit awards this current calendar year.

**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

April 27, 2009

**Subject: Approval of a Funding Commitment for Construction and Permanent financing for the Brookwood Terrace Family Apartments**

Page 5

affordable housing goals. Timely approval of this project financing will ensure that the subject project has its best opportunity to obtain CDLAC approval and that this very important affordable housing project will move ahead in a timely manner.

### **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 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. The Housing Department will post a copy of the City Council memo to the City's website.

Consistent with the City Council Public Outreach Policy, a sign was posted on-site to notify neighbors of the proposed development. The project's notice was also published in a local newspaper, the *Post Record*, and all City noticing requirements were followed. On August 26, 2008, the project was presented as an agenda item at the Five Wounds/Brookwood Terrace monthly meeting. Approximately 25 members of the community were in attendance. Community members were concerned with parking and traffic in the neighborhood, safety and gang violence, and remedying the site's presence as a blighting factor to the neighborhood. Attendees expressed appreciation that site redevelopment was imminent, and requested that the site be secured and demolished as quickly as possible to eliminate the vandalism and other negative impacts to the neighborhood. Staff shares concerns about the site being a nuisance and will work with the applicant for expeditious site clearance subsequent to City Council approval of the proposed rezoning. Revisions to the massing of the project have been sent to the neighborhood for review through the SNI leaders, and no comments were received prior to the release of the Staff report.

### **COORDINATION**

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

April 27, 2009

**Subject: Approval of a Funding Commitment for Construction and Permanent financing for the Brookwood Terrace Family Apartments**

Page 6

**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	\$4,704,111
Hard Costs	\$17,013,515
Soft Costs	\$7,046,489
<b>TOTAL</b>	<b>\$28,764,115</b>

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

<u>USES</u>	<u>AMOUNT</u>
Site Acquisition	\$3,680,000
Construction Costs	\$7,213,000
<b>TOTAL</b>	<b>\$10,893,000</b>

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

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

**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	\$50,000,000	\$10,893,000	XI-53	2/10/09, 28492

HONORABLE MAYOR AND CITY COUNCIL

April 27, 2009

**Subject: Approval of a Funding Commitment for Construction and Permanent financing for the Brookwood Terrace Family Apartments**

Page 7

**CEQA**

CEQA: Mitigated Negative Declaration, file number PP09-087.

  
LESLYE KRUTKO  
Director of Housing

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

Attachments



**ATTACHMENT 1**  
**Anticipated Project Timeline**

City Council approval of funds for land acquisition	December 2008
Developer purchased land; affordability restrictions recorded	March 2009
Application submitted to the Federal Home Loan Bank's AHP Program	April 1, 2009
Estimated City Council approval of Construction/Permanent Funding	May 19, 2009
Application to California Debt Limit Allocation Committee (CDLAC)	May 22, 2009
Notification of Award from CDLAC	July 22, 2009
Anticipated award of FHLB AHP Funding	June 15, 2009
Estimated Date of Construction Loan Closing	September 18, 2009
Estimated Start of Construction	September 24, 2009
Estimated Date of Construction Completion	December 30, 2010
Estimated Conversion to Permanent Loan	September 1, 2011

