



Memorandum

TO: CITY OF SAN JOSE FINANCING
AUTHORITY BOARD

FROM: Julia H. Cooper
Leslye Corsiglia

SUBJECT: SEE BELOW

DATE: May 29, 2012

Approved

Date

6/8/12

COUNCIL DISTRICT: 3

SNI AREA: Five Wounds/Brookwood Terrace

SUBJECT: CONSENT OF THE SAN JOSE FINANCING AUTHORITY TO THE RECORDING OF A SUBORDINATE LEASEHOLD DEED OF TRUST AGAINST THE GROUND LEASE FOR THE BROOKWOOD TERRACE FAMILY APARTMENTS

RECOMMENDATION

It is recommended that the San José Financing Authority Board adopt a resolution authorizing:

- a) Approval of the recording of a subordinate leasehold deed of trust in the amount of \$415,000 against the Ground Lease between the San José Financing Authority (“Authority”) and Brookwood Terrace Family Apartments, L.P. for the Brookwood Terrace Family Apartments.
- b) The Executive Director of the Authority to execute all documents pertaining to this approval.

OUTCOME

Approval of the recommended actions will allow the previously approved loan for the 84-unit Brookwood Terrace Family Apartments (the “Project”) to be converted to permanent loan status, ensuring that the Project is fully financed for the term of the development.

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BACKGROUND

The Project's borrower, Brookwood Terrace Family Apartments, L.P., is a California limited partnership (the "Borrower"). The Borrower will consist of: (1) Pacific Housing Inc., a California non-profit public benefit corporation, as the Managing General Partner, (2) ROEM Development Corporation, or an affiliate thereof, and (3) Hudson Housing Capital LLC, or an affiliate thereof.

On March 3, 2009, the City Council approved an acquisition loan in the amount of \$4,600,000 to acquire the Project site, which is located at 1338 - 1350 East San Antonio Street, San Jose, California (the "Site"). On May 19, 2009, the City Council approved a construction/ permanent loan of up to \$10,893,000 and a predevelopment loan of up to \$500,000 for the Project.

On November 10, 2009, the City Council approved the issuance of multifamily housing revenue bonds in the amount of \$13,600,000 for the Project. In addition, the Authority Board adopted a resolution authorizing that Authority take ownership of the Site from the Borrower and lease it to the Project. This structure was proposed because of the potential long-term benefits of a ground lease. Such benefits include the potential for long-term control of the Site, including ownership of both the land and the building at the end of the lease term, provided there is no foreclosure by the senior lender. The ground lease includes a provision stating if the Borrower receives an Affordable Housing Program ("AHP") Loan, then a Residual Receipt payment obligation shall be waived.

ANALYSIS

Per the terms of the loan with the Borrower, the City's construction loan must convert to permanent status by the end of June 2012. If this does not occur, the Project is in technical default on its senior loan.

It was previously anticipated that the City would consent to a subordinate leasehold deed of trust in the amount of \$415,000 against the Ground Lease. However, this specific authority was not specifically granted by the Authority Board in any previous memorandums. Per the terms of the Borrower's senior construction loan, the conversion must occur by the end of June 2012. The City's construction loan must convert to a permanent loan at the same time as the senior construction loan.

To facilitate the conversion of the senior loan, staff is requesting that the Authority Board approve the recording of a subordinate leasehold deed of trust in the amount of \$415,000 against the Borrower's interest in the Ground Lease. There is no additional risk to the City as this encumbrance is subordinate to the City construction loan.

EVALUATION AND FOLLOW UP

The Housing Department posts quarterly reports on the status of its construction projects to its website, www.sjhousing.org. If approved, The Brookwood Terrace Family Apartments would be included in these reports.

PUBLIC OUTREACH

- 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 request does not meet any of the above criteria. The TEFRA Hearing was held on June 11, 2009 by the Director of Finance. The public hearing notice was published in the *San José Mercury News* on May 20, 2009.

COORDINATION

This report has been prepared by the Housing Department in coordination with the Finance Department and the City Attorney's Office.

FISCAL/POLICY ALIGNMENT

This action is consistent with the City's *2007-2012 Five-Year Housing Investment Plan*, adopted by City Council on June 12, 2007, to increase the supply of affordable housing, and with the City's *Consolidated Plan 2005-2010* to provide housing units for very low- and extremely low-income households.

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CEQA

Mitigated Negative Declaration, file number PP09-087

/s/

ARN ANDREWS for JULIA H. COOPER
Acting Assistant Director of Finance for
Acting Director of Finance

/s/

LESLYE CORSIGLIA
Director, Housing Department

For questions, please contact Leslye Corsiglia, Housing Director at 408-535-3851