DATE: APRIL 3, 2006

TO: CITY COUNCIL

THROUGH: FINANCE COMMITTEE (MARCH 27, 2006)

FROM: CYNTHIA J. KURTZ, CITY MANAGER

SUBJECT: APPROVAL OF AFFORDABLE HOUSING AGREEMENT BY AND BETWEEN CITY OF PASADENA AND GREEN HOTEL, A CALIFORNIA LIMITED PARTNERSHIP AND GOLDRICH AND KEST, LLC. FOR PURCHASE OF AFFORDABLE HOUSING COVENANTS AT GREEN HOTEL, 50 E. GREEN STREET

RECOMMENDATION:

It is recommended the City Council take the following actions:

A. Approve the terms and conditions of the Affordable Housing Agreement between the City of Pasadena and Green Hotel, a California limited partnership and Goldrich and Kest, LLC ("Owner) for the purchase of affordable housing covenants for 138 senior rental units at the Green Hotel for a consideration of $1,750,000;

B. Approve a Journal Voucher transferring $1,750,000 in Housing Opportunities Funds (Inclusionary Housing Trust Funds - $1,000,000 and State Local Housing Trust Funds - $750,000) to the Green Hotel project account; and

C. Authorize the City Manager to execute and the Secretary to attest in a form satisfactory to the City Attorney all documents necessary to implement the transaction.

ADVISORY BODY RECOMMENDATION:

The staff recommendation was considered by the Community Development Committee at its regular meeting on March 23, 2006. Staff will report orally to the Commission on the Committee's action.

BACKGROUND:

The Green Hotel, located at 50 E. Green Street, is a 139-unit (138 rental units and one manager's unit) HUD subsidized affordable senior housing apartment complex for very low income residents. The owner of the complex is "Green Hotel", a California limited partnership and Goldrich and Kest Industries, LLC ("Owner").

The Green Hotel has been identified as an "at risk" HUD Project-based Section 8 building due to expiration of the Owner's HUD Project-based Section 8 Housing contract in July 1998. Currently, the Owner has the option to annually renew the contract with HUD contingent upon the availability of sufficient appropriations from the Federal government.

The Green Hotel also received from the City in 1985 a loan in the amount of $200,000 (@ 3% fixed simple interest per annum) through the State of California Deferred Payment Rehabilitation Loan Program ("DPRLP") for the rehabilitation of the property. The DPRLP loan provisions restricted the housing to low income persons for an initial term of five years with an option, at the City's discretion, to defer loan repayment and renew the restrictive term in five-year intervals.

In February 2005, the Owner submitted a request to the City for funding to preserve affordability of the units and refurbish the building. Subsequently, City staff and the Owner commenced negotiations on the terms and conditions of the Affordable Housing Agreement ("Agreement") pending amendment of the Inclusionary Housing Regulations for the purchase of affordability covenants.

KEY POINTS OF AFFORDABLE HOUSING AGREEMENT:

Pursuant to the terms of the proposed Agreement, the City would purchase a rental covenant for $1,750,000 at the Green Hotel, extending the affordability of the rental units currently occupied by very low income seniors. The Agreement shall include use restrictions for among other things, affordable rents, income eligibility, and covenant period. The proposed affordability covenant period would be 55 years for 15% of the units (21 units), and 15 years for 85% of the units (117 units), based on the financial viability of the restricted rental income. At the expiration of the affordability covenant period (15 and 55 years, respectively), the Owner shall provide assistance in relocating residents to other very-low income housing complexes owned by Goldrich and Kest, Industries. The City shall monitor the Owner's compliance with these restrictions.

In accordance with State guidelines, the DPRLP loan term may be extended by the City in five-year intervals if the units continue to remain affordable for low-income residents. The City has granted three (3) such extensions since 1990. As a condition of the proposed Agreement, the loan maturity date and covenant period for the DPRLP loan shall be extended for a final 5-year term, from March 1, 2005 to February 28, 2010. Additionally, if forgiveness of the DPRLP loan is permitted by the State, the City's amount to purchase the affordability covenants may be reduced by the outstanding loan balance (currently, approximately $350,000).

The City's disbursement of funds to acquire the rental covenant will be subject to the Owner's completion of certain repairs and renovations of the Green Hotel in compliance with Federal Housing Quality Standards (HQS) and the City Housing Code. The renovation/repair items, as well as other business points, are outlined in Attachment "A", "Key Terms And Provisions Of Affordable Housing Agreement".

By virtue of the proposed transaction, the Green Hotel will be subject to the City's Local Preference and Priority Guidelines System (City Council Resolution No. 8559 and Pasadena Community Development Commission Resolution No. CDR-243) with respect to the marketing and selection of tenants for vacancies as they may occur in the affordable dwelling units.

The financial terms of the Agreement were reviewed by Wald Realty Advisors ("WRA"). WRA found the terms of City's assistance acceptable given the long-term restrictions on the rental payment from very low income seniors stipulated in the Agreement. See Attachment "B", WRA Memorandum.

HOUSING IMPACT:

Approval of the subject recommendation would extend the affordability of 138 units of rental housing units for very low income seniors residing at the Green Hotel in Old Pasadena. The preservation of the affordability of these units also prevents a major housing crisis - displacement of very low income elderly residents - if the units were rented or converted to market rate.

FISCAL IMPACT:

$1,750,000 shall be allocated from the City's Housing Opportunity Fund (Inclusionary Housing Trust Funds - $1,000,000 and State Local Housing Trust Funds - $750,000). Additionally, the outstanding balance on the DPRLP loan on the extended maturity date (February 28, 2010) will be approximately $549,820 ($200,000 principal and $349,820 accrued interest)

Respectfully submitted,

CYNTHIA J. KURTZ
City Manager

Prepared by:

ALDRA ALLISON
Project Manager

Reviewed by:

For GREGORY ROBINSON
Housing /Community
Development Administrator

~~Approved by:~~

BRIAN K.WILLIAMS
Assistant City Manager

ATTACHMENT "A"

GREEN HOTEL APARTMENTS
50 E. GREEN STREET, PASADENA, CA 91105

KEY TERMS AND PROVISIONS OF AFFORDABLE HOUSING AGREEMENT (3/15/06)

I. Owner/Developer

- ☐ The owner/developer is Green Hotel, a California limited partnership, ("Owner") and Goldrich & Kest Industries, LLC ("GKI").

II. Property

- ☐ The Green Hotel, a 139-unit apartment complex located at 50 E. Green Street ("Property").

III. Site Control

- ☐ The Property is owned by Green Hotel, a California limited partnership "(Owner").

IV. Land Use Entitlements

- ☐ Central District Specific Plan CD-1 (Residential and Commercial)

V. Environmental Studies and Documentation

- ☐ Not applicable

VI. Project Financing

- ☐ City of Pasadena ('City") shall provide to Owner $1,750,000 from the Housing Opportunities Fund to purchase rental covenants at the Green Hotel to extend the affordability of 139 existing rental units occupied by very low income senior residents.

- ☐ Extend term of the Deferred Payment Rehabilitation Loan ($200,000 principal amount) for an additional 5-year term, from March 1, 2005 to February 28, 2010 ("Maturity Date"). No further extensions shall be granted by the City.

- ☐ In the event the State of California Housing and Community Department allows the City to totally forgive the DPRLP loan prior to the Maturity Date, the City may reduce its payment amount for the purchase of the affordability covenant by the same amount forgiven.

VII. City Fund Disbursement Conditions

- ❑ The City's disbursement of funds will be conditional upon the Owner renovating dwelling units to comply with Federal Housing Quality Standards and City Code, and Owner completion of the following repair/renovation items pursuant to City Design and Historic Preservation requirements:

  1. Upgrade the main entrance on Green Street by reopening the half-circle transom, replacing the clear aluminum doors with wood- and – glass doors (in a design appropriate to the architecture of the building); repair water damage on the west wall in the entry foyer and restore wood or paint walls in the entry foyer.

  2. Repair the visibly damaged wood and metal flashing at the ends of the projecting eaves as well as the wooden window sills on the south side of the building, which because of their exposure to the sun, need to be scraped, primed, and painted.

  3. Replace the existing suspended ceiling and fluorescent lighting in the residential hallways with a newer ceiling system with lighting that is more residential in character (and less institutional) and rework the paint scheme to soften the walls and to add some accent colors to the doors, door frame, etc. The carpeting in the hallways shall also be replaced to coordinate with a new color scheme.

  4. Paint the oriels (bay windows) facing Fair Oaks Ave.

  5. Replace the floor tile near the elevator on the fifth floor.

  6. Provide new furniture, rugs, restored fireplace, and television in the community room.

VIII. Affordable Housing Restrictions

The Affordable Housing Covenant Agreement ("Covenant") shall include affordable housing restrictions for, among other things, affordable rents and income eligibility. City shall monitor Owner's compliance with these restrictions.

- ❑ The dwelling units shall be rented to and occupied by very low income elderly households (at or below 50% of area median income) who shall pay rents that do not exceed limits stipulated under the more restrictive of applicable federal, state or local regulations.

- ☐ Covenant shall run with land for a minimum of 15 years for 85% of the units (118 units) and 55 years for 15% of the units (21 units).

- ☐ Owner agrees to annually renew its Section 8 Project-Based HAP contract with HUD during the respective covenant period (15 years for 85% of the units and 55 years for 15% of the units).

- ☐ Should, for any reason, a dwelling unit cease to be covered under the HAP contract during the applicable covenant period, the rent charged to the tenant residing in that unit shall not exceed the tenant's portion of the contract rent under the HAP contract. This provision shall remain in effect until the dwelling unit is vacated, at which point, the rent limit shall be established in accordance with the more restrictive of applicable state or local regulations.

- ☐ The marketing and selection of tenants for vacancies as they may occur in dwelling units shall be subject to the City's Local Preference and Priority Guidelines System (adopted pursuant to City Council Resolution No. 8559 and Pasadena Community Development Commission Resolution No. CDR-243).

IX. Relocation

- ☐ At the expiration of the 15 year affordability covenant period for the 85% units, the owner will offer assistance in relocating tenants to another very-low income complex owned by GKI -- and, if preferred by the displacee, located within Los Angeles County -- subject to applicable State and Federal law.

X. Marketing Plan

- ☐ Compliance with HUD regulations and Inclusionary Housing Regulations including use of the PCDC Section 8 HCVP Waiting List.

XI. Equal Employment Opportunity/Affirmative Action/Local Hiring

- ☐ Owner shall comply with city's EEO/AA policies.

- ☐ Owner shall comply with City's First Source Hiring Ordinance for local hiring, and enter into a First Source Hiring Agreement).

XII. Insurance

- ☐ Owner shall comply with City's insurance requirements.

- ☐ Owner agrees to and shall indemnify the Commission and City from and against all claims and expenses arising from or in connection with the Owner, or its lessees, use of the Property or performance of the obligations under the terms of the Agreement.

Exhibit 3 **Cost of Proposed Green Hotel Assistance Compared to Affordable Housing Subsidy**

City Cost of Retaining HUD Housing Assistance Program

Months of Affordability Covenant Acquired			
15 Year Covenant - 117 units		21,060	
55 Year Covenant - 21 units		13,860	
Total Unit-Months of Affordability Covenant		34,920	
Cost of Affordability Covenant (138 units)			
Total Cost	$	1,750,000	
Cost/Unit/Month		$50.11	

Potential Cost of Acquiring Affordability Covenants For Low-Income Units Comparable to Green Hotel

Affordability Gap - Market less City Affordable Rent			
Gross Rent at Market Rates (95% occupancy)	$	1,586,217	
Gross Rent at HUD Contract Rents (95% occupancy)		772,646	
Difference	$	813,570	
Less: Adjustment for Higher Property Taxes at Market Rents		101,696	(1)
Difference in Owner Effective Income	$	711,874	

Potential Cost to Acquire Affordability over Covenant Period

Year		2.8% Rent Inflation	
1 (138 units covenanted)	$	711,874	
2		731,806	
3		752,297	
4		773,361	
5		795,015	
6		817,276	
7		840,159	
8		863,684	
9		887,867	
10		912,727	
11		938,284	
12		964,556	
13		991,563	
14		1,019,327	
15		1,047,868	
16 (21 units covenanted)		163,923	
17		168,513	
18		173,231	
19		178,082	
20		183,068	
21 - 55		10,947,570	
TOTAL (rounded)	$	24,862,100	
Net Present Value @ 10.0% (rounded)	$	6,814,000	(2)

(1) Assumes increase in revenue from market rents is realized as higher assessed value based on 8.0% cap rate and 1.0% property tax rate.
(2) Discounted at private developer rate (mixed debt/equity rate) to calculate how an apartment owner might value the loss in income

Attachment "B"

MEMORANDUM

TO: Jim Wong, Project Manager
City of Pasadena Housing and Development Department

FROM: James P. Regan

DATE: March 20, 2006

SUBJECT: **GREEN HOTEL SUBSIDIZED HOUSING – Analysis of Financial Implications of Acquisition of Rental Covenants to extend Affordability under HUD Section 8 Housing Program**

Goldrich & Kest Industries, Inc. ("G&K") and The Green Hotel, a California limited partnership that is the owner of the Green Hotel in Pasadena, operate the hotel under a Section 8 Housing Assistance Program ("HAP") contract with HUD. The hotel property provides very low-income senior rental housing (138 assisted units and one unassisted manager unit) for households with incomes that do not exceed 50% of area median household income adjusted for household size The project also includes over 13,000 square feet of commercial space facing Fair Oaks.

The contract with HUD was renewed through July 31, 2006. The owner indicates that the current renewal year was planned as a transition period from affordable seniors to market rate tenants. The owner also plans to upgrade the building/units at a substantial cost.

The proposed Covenant Purchase Agreement between the City and the owner ("Agreement") provides that, in return for a City assistance payment of $1,750,000, the owner agrees to various obligations including the following: (1) complete a renovation plan to comply with the Federal Housing Quality Standards and City Code pursuant to City Design and Historic Preservation requirements; and (2) renew the Section 8 HAP Contract for a minimum of 15 years for 85% of the units (117 units) and 55 years for 15% of the units (21 units).

This report summarizes our analysis of the proposal. It is important to note that the analysis is based on project rental data only available as of November 2, 2005 and does not represent a recommendation of any position since no consideration is given to the cost/value of other affordable housing opportunities available to the City.

SUMMARY

This cost of acquiring the covenants for continued HUD Section 8 affordability at the Green Hotel can be measured against the cost of acquiring similar affordability covenants at comparable market rate rental developments. That is, assuming that the City is deficient in affordable housing units or wishes to maintain the same number of affordable units in the City, the alternative to this proposed transaction is to purchase affordability covenants at a similar development with comparable units.

- The cost of this proposed transaction to the City is $1,500,000 or $50.91 per month per unit for continued affordability at very low- income rent levels.
- The current annual difference between market and very low-income affordable rents (at the Green Hotel Section 8 rent levels) is estimated at $856,390 annually or approximately $517 per month per unit at current rent levels.
- Based on estimated market rate rents for the Green Hotel, the estimated present value of the cost of acquiring the affordability covenants for 138 units of very low-income housing over the stated time periods is approximately $6,184,000

Clearly, it is far less expensive to preserve affordability for 138 units over the stated time periods at a cost of $1,750,000 than it is to replace the affordability by acquiring covenants at another development.

PROJECT DESCRIPTION

General Description

The Green Hotel, located at 50 E. Green Street, is a six-story (with partial seventh floor) elevator building with commercial retail spaces on the ground floor. The building was constructed 1891 with improvements added in 1903 and a complete rehabilitation in 1973. There is a basement level with common area storage and maintenance areas, and common areas in upper floors consisting of an office, laundry facility, bathroom and hallways/stairways. Approximately 60 parking spaces are provided in a surface lot with access from Dayton Street. Unit features include electric range, refrigerator, disposal, window air conditioning, and tub/shower units in the bathrooms. All utilities are electric with the exception of hot water and are master metered (utility charges are included in the rent).

Unit Mix and Rents

The project has 139 rental apartments (138 for rent plus one manager unit) and 13,476 square feet of commercial rental space. The units consist of 99 studios, 39 one-bedroom and one two-bedroom manager unit (not an income-restricted unit). The floor area and unit sizes of the assisted units are not consistently reported in documents provided, as follows:

	Average Square Feet per Unit		
	Studio	1-Bedroom	2-Bedroom
1. Original HUD documents	387	597	864
2. Appraisal February, 1994	433	662	945
3. Estimate in 2003 - usable space (1)	400	650	N/A

(1) Rent Comparability Study on Green Hotel Apartments, Gardner & Gardner, February 18, 2003.

For purposes of this report, we have used the unit sizes estimated in the 1994 appraisal report which apparently reflect unit measurements and seem comparable to the basis of unit measurements in comparable developments included in a market rent survey.[1]

Section 8 Fair Market Rents are set by HUD annually. The historic Fair Market Rents for very low-income households under the HAP contract are as follows:[2]

Effective Date (August)	Studio	1-Bedroom
1999	$404	$448
2000	$412	$457
2001	$423	$469
2002	$438	$485
2003	$450	$498
2004	$466	$515
2005 (Nov.)	$477	$527
Avg. Increase/Year	2.81%	2.75%

[1] Rent Comparability Study, Gardner & Gardner, January 26, 2005.
[2] HUD defines Fair Market Rents as gross rents including utilities set at the 40th percentile of standard quality rental housing unit rents in the market area.

Under the HAP contract terms, very low-income renters have household incomes no greater than 50% of the median family income for the area adjusted for family size. Actual monthly rent paid by qualified renters under the Section 8 program is the highest of (1) 30% of adjusted family monthly income (total income less exclusions and allowable deductions); (2) 10% of the family's monthly income; (3) welfare rent in states where applicable; or (4) a minimum rent set by FHA. The Green Hotel rent roll as of November 2, 2005 indicates the following source of rental revenue:

Nov. 2, 2005	Monthly	# Units	Per Unit
Total Gross FMR	$67,682	138	$492
Assistance Payments	$30,734	128	$240
Tenant Rent	$32,699	138	$255

Note: Nine units do not qualify for assistance because tenants' income exceeds allowable limit; one unit vacant.

ANALYSIS OF PROPOSED CITY ASSISTANCE

The City is proposing to essentially purchase a covenant under which the owner commits to extending the HUD Housing Assistance Payment contract for 15 years (117 units) and 55 years) 21 units) during which period the units would be maintained as very low-income affordable housing for seniors. The analysis focuses on the value of the affordability covenant being acquired compared to the proposed City investment.

The value of the affordability covenant can be measured based on the difference between market rents and HUD Section 8 rent levels. This indicates the following methodology: (1) estimation of market rents without any rent restrictions for the Green Hotel units: (2) estimation of the annual assistance level for very low-income renters based on the difference between market rents and HUD Section 8 rents; (3) projection of the rent difference/indicated assistance over the time period of the covenants being acquired; and (4) discounting projected rent difference/indicated assistance to estimate the potential cost in present value terms of the rent differential compared to the proposed cost of acquiring the covenants.

Market Rent Levels

WRA reviewed rental comparison data prepared by Gardner & Gardner as of January 2005. The five developments indicated as comparable to the Green Hotel are all located in Pasadena (less than one mile from the Green Hotel) and with one exception built at least 40 years ago. Unit features are similar at all projects. The comparative rent data are shown in Exhibit 1.

- Studio Units –2005 rents range from $800 to $1,200 monthly with an average rent of $962. Unit sizes average 462 square feet with an average rent per square foot of $2.08.

- One-Bedroom Units – 2005 rents range from $875 to $1,350 monthly with an average rent of $1,091. Unit sizes average 740 square feet with an average rent per square foot of $1.47.

The adjusted rent shown in Exhibit 1 represents the estimated rent with adjustments for qualitative differences among the developments. WRA cannot vouch for the level of rent adjustments indicated and therefore has used the unadjusted rents in this analysis, and have increased the rents by 5% to account for rent increases since the time of the survey.

On this basis, the potential gross market rent for the Green Hotel is estimated as follows:

	Studio Units	1-Bedroom Units
Unit Size (SF)	433	662
At Average Unit Rent	$1,010	$1,146
At Average Rent/SF	$ 946	$1,022
Average of Estimates	$ 978	$1,084

Comparison – HUD Section 8 and Market Rents

The calculation of potential rent levels at market, HUD (FMR) and City Inclusionary rent levels are shown in Exhibit 2.

- If the HUD contract is not renewed, conversion of the project to full market rents results in total potential gross rents at current levels of $1,669,702.

- This potential annual rent exceeds the HUD Section 8 gross rent potential by $856,390 or $517 monthly per unit.

The difference in gross rent potential allows a generalized approximation of two factors: (1) the potential value to the owner of terminating the HUD Section 8 contract and achieving market rents; and (2) comparison of the proposed cost of the HUD Section 8 contract extension to the potential cost of acquiring covenants at a market rent project, based on the value to the owner of foregone income at lower HUD Section 8 rents.

Potential Cost of Acquiring Covenants Compared to Agreement

The potential cost to the owner of lower HUD Section 8 rents is the foregone income and value of that income based on the difference between market rents and very-low income rents over the terms of the covenants. This analysis is shown in Exhibit 3.

- Assuming market rents at levels estimated for the Green Hotel, the difference between market and very low-income rents for 138 units is approximately \$813,570 in the first year, with a net difference to the owner of \$711,874 after adjusting for a reduction in property taxes with affordable units.

- Over the period covered by the covenants, the total difference between market and affordable adjusted rents is approximately \$21,862,100. Assuming a private owner discount rate of 10% annually as an earning rate on total capital (debt/equity), the potential cost of acquiring affordability covenants for 138 units of very low-income housing could approximate \$6,814,000 or \$49,377 per unit.

As a result, the cost of acquiring these affordability covenants clearly is substantially less than the potential cost of acquiring affordability covenants at another development with comparable units at market rents.