



Agenda Report

DATE: March 26, 2007
TO: PASADENA COMMUNITY DEVELOPMENT COMMISSION
FROM: CYNTHIA J. KURTZ, CHIEF EXECUTIVE OFFICER
SUBJECT: FIRST AMENDMENT AGREEMENT TO OWNER PARTICIPATION AND LOAN AGREEMENT WITH TRADEMARK DEVELOPMENT, LLC FOR AN EIGHT UNIT PROJECT AT 1350 N. EL MOLINO AVENUE

RECOMMENDATION

It is recommended that the Pasadena Community Development Commission ("Commission") take the following actions:

- A. Approve the terms and condition of the First Amendment Agreement to the Owner Participation and Loan Agreement No. CDC-560-1 between the Commission and Trademark Development, LLC ("Developer");
- B. Approve a journal voucher appropriating an amount not to exceed \$179,869 from the Commission's Housing Opportunity Fund-Inclusionary Housing Trust Fund to the Trademark Development project account to provide additional loan assistance to Developer for the development of the proposed Trademark eight unit project located at 1350 North El Molino Avenue;
- C. Authorize and directing the Chief Executive Officer of the Commission to execute, and the Secretary to attest the Amendment Agreement, and to take any actions necessary to implement the Amendment Agreement.

BACKGROUND

On August 8, 2005 the Pasadena Community Development Commission ("Commission") approved the terms and conditions of the Owner Participation and Loan Agreement No. CDC-560-1 (the "OPLA") with Trademark Development, LLC ("Developer") in connection with the proposed eight unit project located at 1350 North El Molino Avenue ("the Development"). The proposed development is located within the North Lake Avenue Specific Plan District. The key terms and conditions of the OPLA provide for Commission loan assistance totaling \$1.35 million and a "Loan Maturity Date" of February 13, 2007 by which date the Developer shall begin payment of the loan.

The project site includes an existing storm drain covered channel that traverses across the subject property from east to west which must be protected. The storm drain easement is 25 feet wide and the drain ranges from three to eight feet below existing grade and is 10 feet in diameter. A detailed structural and facility plan for the construction over the drain channel and easement is required. The plan is expected to be completed in 60 to 90 days. The City will review the plan and make any further recommendations regarding the structural design as required.

On February 5, 2007 the Developer submitted a written request to extend the maturity date for the loan for an additional 18 months. The OPLA agreement gives the Chief Executive Officer the authority to approve 30 day extensions in order to carry out the terms of this agreement. An extension was granted to March 20, 2007 which included the understanding that staff would schedule a hearing before the Community Development Commission to recommend the extension for an additional 18 months. The developer is also asking for an increase in its loan commitment of \$179,869. This amount represents the financial gap that would need to be recast from the loan to subsidize the two affordable moderate income units. When the OPLA was approved in August, 2005 the, the financing gap was \$1,350,000 which included a \$300,000 subsidy for the two affordable units. The \$179,869 increase in the financing gap is attributed to the escalation in construction costs and the reduction in the sales price of the affordable units due to an increase in the loan percentage rates. The current financing gap amount was confirmed after analysis of the Development's cost by financial consultant, Keyser Marston Associates.

Staff has negotiated the terms and conditions of an Amendment Agreement to the DDA which would require: a) extend the maturity date of the loan to August 18, 2008 by which date the project should be completed) revise the Performance schedule; c) provide an increase in the Commission's loan commitment for an amount not to exceed \$179,869.

PROJECT STATUS

The proposed project will consist of eight townhouse style units, seven attached units and one detached unit, approximately 1,500 square foot units. Two of the eight units will be restricted as affordable housing for moderate income families; the other six will be market rate. The floor plan for the eight units consists of three bedroom/ two baths with an attached two-car garage. The project received Variance approval on December 20, 2006 and the application for consolidated Design Review will be submitted on March 5, 2007. A portion of the loan proceeds (\$1,050,000) were used for land acquisition and predevelopment costs.

FISCAL IMPACT

Approval of the recommendation will increase the Commission's loan commitment to the Developer by \$179,869 for a total of \$1,529,869. Of this total, \$479,869 will be silent second loans pursuant to the Home Ownership Opportunities Program to the homebuyers of the two affordable units. The recommended increase in loan funds shall be drawn from the Commission's Housing Opportunities Fund-Inclusionary Housing

Trust Funds. A portion of the loan proceeds were used for property acquisition (\$1,300,000). The balance will be used for subsidies to moderate-income buyers through a recast (\$479,869) and pre-construction costs (\$50,000).

The Commission's loan of \$1,529,869 will be repaid under the following terms and conditions; the land acquisition portion of the loan (\$1,050,000) will be secured by a second trust deed, subordinate to conventional financing, at a zero interest rate for 18 months. The loan would be paid in full upon the sale of the last units. The Commission will share in the profit of sales above the \$484,000 market price to a maximum of \$142,000, based on a share distribution of \$71,000 (interest loss) each for the Commission and the Developer.

Additionally, \$479,869 of the loan will be recast as a subsidy of \$239,934 each for the two moderate-income units. This loan will be secured by a silent second loan pursuant to the Home Ownership Opportunities Program for the buyer and will bear a simple interest rate of 6% per annum over a 45-year term. The loan will carry a shared appreciation requirement in case of loan prepayment, refinancing or resale of the dwelling units per the terms of the recorded covenant agreement. A silent third of \$14,932 will be a developer write down for the two moderate-income units.

The Developer will secure conventional financing of \$2,384,000 for the project prior to the start of construction. The project's total development cost is \$3,524,000. The total gross revenue for the project is \$3,377,200. The estimated purchase price for the affordable units is reduced from \$245,000 to \$236,600 and the market rate units are increased from \$469,000 to \$484,000.

Developer's Source for the project financing	
\$1,529,869	Commission Assistance

Uses:	
\$1,479,869	Land Acquisition
\$ 50,000	Pre-Development Costs

ENVIRONMENTAL FINDING

The proposed project has no negative environmental impacts and the Committee will acknowledge that the project is exempt under the General Rule. The activity is covered by the general rule that CEQA applies only to projects which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA.

HOUSING IMPACT

Approval of the subject recommendation will provide the opportunity for the Commission to participate in the construction of eight townhouse units (two affordable). The proposed Project is consistent with the goals and objectives of the Commission's Five-Year Implementation Plan (2005-2010), the Five-Year Consolidated Plan (2005-2010), the General Plan Housing Element, the Commission's Priority Work Program, and the Housing Element of the Northwest Pasadena Community Plan.

Respectfully submitted,



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Chief Executive Officer

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LOLA OSBORNE
Northwest Programs Manager

Approved by:



RICHARD BRUCKNER
Director of Planning & Development

ATTACHMENT A
TRADEMARK DEVELOPMENT COMPANY
1350 N. El Molino Avenue
KEY TERMS AND CONDITIONS OF
OWNER PARTICIPATION AND LOAN AGREEMENT

I. Developer Entity

The Developer entity is Trademark Development, LLC.

II. Land Use Entitlements

- The existing zoning designation for the project site is CL (Commercial Limited) which utilizes the RM-32 residential standards for the proposed project.
- The maximum allowable density in the RM-32 zone would be 10 dwelling units. The developer plans to construct eight (8) units for ownership on site.
- The Developer has been approved for the following variances: a) three-story height limit beyond the interior 16%; b) one-story element c) massing of the building façade to extend beyond 60 feet in length along El Molino.

III. Acquisition

- The Developer closed escrow on August 23, 2005.

IV. Environmental Studies and Documentation

- Phase 1 study required.
- Commission prepared a Notice of Exemption based on the project determination of “no environmental impacts”.

V. Project Financing

Developer has requested that Agency provide financial assistance for the development of the proposed project.

- The total Commission financial assistance requested for the project is \$1, 529,869 (\$479,869 silent second trust deed) which is in agreement with KMA’s determination for assistance. These funds consist of a \$50,000 predevelopment loan and

\$1,479,869 for land acquisition from the Housing Opportunities Funds-Inclusionary Housing Trust Fund from the Commission. The Commission assistance is \$1,529,869 to the project, a loan of \$1,050,000 will be repaid to the Commission from the sale of the last units. The Commission will recast \$479,869 from the Commission assistance in the form of a silent second trust deed loan to qualified moderate buyers for the two affordable units. The Commission loan carries no interest and has a term of 18 months. The estimated purchase price for the affordable units is \$236,600 and for the market rate units is \$484,000.

- The Commission Home Opportunities Loan –Inclusionary Housing Trust Funds of \$479,869 will be secondary financing to qualified buyers and have a 45- year term with a six percent interest rate. In addition, the loan will carry a shared appreciation requirement in event of loan prepayment (from refinancing or resale of the dwelling units).

Sources:

Construction Loan	\$ 1,900,000
Commission Loan	1,529,869
Developer's Equity	<u>94,131</u>
Total	\$3,524,000

Uses:

Land Acquisition	\$ 1,479,869
Direct Costs	1,358,000
Indirect Costs	523,000
Finance costs	293,000
Pre-Development Costs	<u>50,000</u>
Total	\$3,524,000

In addition to the Agency's financial assistance, City shall provide partial waivers of plan review fees and building permit fees for affordable units pursuant to Resolution No. 6681.

VI. Scope of Development

- The project shall consists of the new construction of two (2) affordable and (6) market rate townhouse style units at 1350 North El Molino Avenue to provide homeownership units to moderate-income households.
- The development shall be designed in accordance with all applicable city codes.
- Developer shall be required to provide Concept Design Drawings, 50% Design/Development Documents, and 100% Design/Development Documents.

VII. Schedule of Performance

- Developer shall adhere to the revised Schedule of Performance elements identified in the OPLA Schedule of Performance.

VIII. Relocation

- Relocation of commercial tenants shall comply with the State of California Government Code Section 7260 et seq. and Section 6000 et seq. of Title 25 of the California Code of Regulations.

IX. Marketing Plan

- Developer shall coordinate its residential marketing activities to give priority first to displaced Pasadena residents, second, to local residents, third to persons who are employed in Pasadena, and four to all potential homebuyers.
- Dwelling units shall be occupied by homeowners.

X. Affordable Housing Covenant Agreement

- The Agreement shall include income limits, and non-discrimination provisions, among other things. Agency shall monitor the project's compliance with Agreement.
- The two (2) affordable dwelling units shall be sold to moderate-income households with incomes from 110% of the median income.
- Agreement shall run with the land for a minimum of 45 years.

XI. Equal Employment Opportunity/Affirmative Action

- Developer shall comply with City's insurance requirements.
- Developer/owner shall comply with city's EEO/AA policies.

XII. Insurance

- Developer to submit insurance policy.
- Developer shall enter into a First Source Agreement with the Commission

XIII. Miscellaneous

- Developer shall provide a finished project appraisal.
- Developer shall provide proof of a Title report.
- Developer shall identify predevelopment costs.
- Site improvements shall be paid for by the Developer.

- Developer shall provide proof that the Liquor license for beer and wine sales was cancelled by the Developer prior to the close of escrow.