DATE: AUGUST 11, 2008

TO: PASADENA COMMUNITY DEVELOPMENT COMMISSION

FROM: BERNARD K. MELEKIAN, CHIEF EXECUTIVE OFFICER

SUBJECT: AMENDED BUSINESS POINTS; DISPOSITION AND DEVELOPMENT AGREEMENT WITH TRADEMARK DEVELOPMENT COMPANY, LLC FOR A SIX-UNIT OWNERSHIP HOUSING PROJECT AT 1150 N. ALLEN AVENUE

RECOMMENDATION

It is recommended that the Pasadena Community Development Commission ("Commission") approve:

A. Amended business points, as described in this report, to be incorporated into the Disposition and Development Agreement ("DDA") between the Commission and Trademark Development Company, LLC in connection with the development of the six-unit project at 1150 N. Allen Avenue; and

B. A journal voucher re-appropriating $198,000 Workforce Reward funds from the 1150 N. Allen Ave. project account back to the City's Housing Opportunity Fund to be available for other projects.

ADVISORY BODY RECOMMENDATION

Due to time constraints the subject staff recommendation has not been presented to the Community Development Committee. To present the item at the next regular meeting of August 14, 2008 will cause unacceptable delay that may impact the ability of Trademark Development Company to secure construction financing for this project.

EXECUTIVE SUMMARY

The downturn in the for-sale housing market has necessitated the restructuring of the proposed development and financing plan at 1150 N. Allen Ave. by Trademark Development LLC (the "Developer"). While the original six-unit development concept remains fundamentally unchanged, certain modified business terms are proposed: a) sale of the Project site to the Developer at the land residual value of $47,000 representing a land write-down in the amount of $868,000; b) re-distribution of the income mix to 4 affordable units and 2 market rate units; c) potential recapture of $868,000 land write-down from resale of affordable units; and d) Commission to receive 50% of sales proceeds in excess of established pro forma in the event of upturn in housing market prices.

BACKGROUND

On August 6, 2007 the Commission approved the terms and conditions of the Disposition and Development Agreement ("DDA") with the Developer in connection with the proposed six-unit ownership housing complex at 1150 N. Allen Avenue ("the Property"). The approved development concept consisted of one affordable unit, two workforce units, and three market rate units - two of which were designed as artisan lofts with commercial office space. The subsequent downturn in the for-sale housing market rendered the project financially unfeasible and substantially reduced the fair market value of the Commission-owned Property. In response, the Developer and staff re-negotiated the restructuring of the project with the objective of maintaining the Commission's subsidy at less than $250,000 per affordable unit and avoiding the infusion of additional Commission funds. The restructured project will consist of four affordable moderate income units and two market rate units designed as mixed-used with both residential and non-residential space ("the Project"). The current appraised fair market value of the Property is $915,000 and the residual land value is $47,000. Hence, the Commission's net subsidy is $868,000 ($915,000 minus $47,000) or an average of $217,000 per affordable unit. The revised financing terms for the proposed Project were reviewed by Wald Realty Advisors ("WRA"), the Commission's financial consultant. WRA's report supporting the residual land value analysis is attached as Exhibit "A".

The Project concept site plan has also been re-designed to address zoning development standards. On June 18, 2008, Conditional Use Permit CUP #5091 was approved by the Hearing Officer for: a) Minor Conditional Use Permit to allow tandem parking in conjunction with a new mixed-use project; b) variance to allow tandem parking to be shared between a residential and non-residential use; c) Minor Variance to the required front yard setback along Brigden Road; and d) Variance to deviate from the required depth of 50 square feet to 25 square feet for a commercial use. The property is zoned for a maximum density of eight units; the Project consists of six units. Project site plans are attached as Exhibit "B".

The Developer has been in discussions with Century Housing, which has issued a letter of interest to provide construction financing for the Project. The Developer is prepared to begin submittal of applications to the City for project approvals (including tentative tract map, design review, and plan check) within 60 days of Commission execution of the DDA.

DDA AMENDED BUSINESS POINTS

The table below summarizes the key amended business points to be included in the DDA. All other DDA business points previously approved by the Commission are unchanged. An outline of the DDA Key Terms and Conditions, as amended, is attached as Exhibit "C".

	Original Project	Restructured Project
Property Sales Price to Developer	$1,266,000	$47,000
Purchase Loan to Developer	$1,266,000	$0
Land Write-Down	$106,000	$868,000
Loan to Remain in Project	$250,000	$0
Total Subsidy to Project	$356,000	$868,000
Unit Mix	1 affordable 2 workforce 3 market (2 w/ office space)	4 affordable 0 workforce 2 market (w/ office space)
Share of "Excess" Sales	None	50%

When the Commission originally approved the transaction in August 2007, the Property was proposed to be sold to the Developer at the price of $1,266,000 which would be 100% financed with a Commission purchase money loan. The transaction also provided for a land write-down in the amount of $106,000 and $250,000 of the Commission purchase money loan to remain in the Project as additional subsidy. Hence, under the original Project transaction, the Commission would receive $910,000 in net proceeds from the sale of the Property and provide a $356,000 subsidy to the Project.

The changes in the real estate market over the past year have resulted in a 21% decline in the fair market value of the Property to $915,000 (compared to $1,160,000 in August 2007). Estimates of sales revenues from the Project's market rate units fell by over 18% and a re-design of the concept site plan to conform with City development standards resulted in a 13% reduction in building square footage. In order to make the Project financially feasible without additional Commission funding, the restructured transaction entails the Commission sale of the Property to the Developer at the residual land value of $47,000 (project sales revenues minus project development costs). This amounts to an $868,000 land write-down ($915,000 fair market value minus $47,000 residual land value) which would be the Commission's subsidy to the Project.

With the proposed increase in the number of affordable units to four (4), the Commission subsidy per affordable unit is $217,000 ($868,000 divided by 4 units). The moderate income restricted units would be sold at affordable sales prices with no additional homebuyer assistance to be provided by the Commission. Subordinate liens recorded against the affordable units would provide the potential for Commission recapture of the $868,000 land write-down from resale of the units at market rate upon expiration of the 45-year affordability covenant term. Finally, should the for-sale housing market experience an upturn at the time the Project is completed, the Developer will agree to share with the Commission 50% of any sales revenues in excess of the established pro forma.

FISCAL IMPACT

Approval of the subject recommendations will have the following fiscal impacts: a) a land write-down in the amount of $868,000 on the Commission-owned property; b) potential recapture of the land write-down from resale of affordable units; c) revenue in the amount of $47,000 from the Commission sale of the property to Developer; d) potential revenue from Commission receipt of 50% share of sales proceeds in excess of established pro forma; and e) increase of $198,000 in the Housing Opportunity Fund from journal voucher appropriation of Workforce Reward funds.

Respectfully submitted,

Bernard K. Melekian
Chief Executive Officer

Prepared by:

James Wong
Interim Housing Manager

Approved By:

Stephanie DeWolfe
Acting Assistant City Manager