

Agenda Report

December 16, 2013

TO: Honorable Mayor and City Council

THROUGH: Economic Development and Technology Committee (December 2, 2013)

FROM: Housing Department

SUBJECT: APPROVAL OF KEY BUSINESS TERMS OF AFFORDABLE HOUSING LOAN AGREEMENT WITH SAN GABRIEL VALLEY HABITAT FOR HUMANITY FOR ACQUISITION OF 752 MANZANITA AVENUE WITH \$175,000 LOAN ASSISTANCE AND DEVELOPMENT OF A TWO-UNIT AFFORDABLE HOMEOWNERHIP PROJECT

RECOMMENDATION:

It is recommended that the City Council take the following actions:

- 1) Find that the City provision of loan assistance to San Gabriel Valley Habitat for Humanity ("SGV Habitat") for the acquisition of property at 752 Manzanita Avenue ("Property") and the construction of two housing units does not have a significant effect on the environment and has been determined to be categorically exempt under Class 3 (New Construction or Conversion of Small Structures) of the State California Environmental Quality Act ("CEQA") and, specifically, Section 15303 of the State CEQA Guidelines;
- 2) Approve key business terms of the Affordable Housing Loan Agreement, as set forth in this agenda report, with SGV Habitat for the development of an affordable two-unit homeownership project on the Property; and
- 3) Approve a journal voucher appropriating \$175,000 from the City Housing Successor Fund balance to the "Habitat Manzanita" project (Account No. 8167-237-684140).

ADVISORY BODY RECOMMENDATION:

The subject recommendation will be considered by the Northwest Commission at its regular meeting of December 12, 2013. Staff will report orally to the City Council on the action taken by the Northwest Commission.

BACKGROUND:

In August, 2013 San Gabriel Valley Habitat for Humanity ("SGV Habitat") approached the Housing Department with a proposal to acquire, with City financing assistance, a 0.25 acre vacant lot located at 752 Manzanita Avenue (the "Property"), as shown in Exhibit "A", for the development of two condominium units which would be sold to eligible low income families. The Property is currently owned in trust by the family of a former SGV Habitat employee. The family desires that the future use of the Property be two homeownership condominium units built by SGV Habitat and sold to qualified low income families who live and/or work in Pasadena. The Property is zoned RM-12 with an allowable density of two (2) units.

SGV Habitat, a 501(c)(3) nonprofit Public Benefit Corporation, is an affiliate of the national Habitat for Humanity organization. Since its incorporation in 1990, SGV Habitat has developed 11 homeownership projects in the San Gabriel Valley region totaling 59 affordable units. The twelfth homeownership project will break ground in March 2014 for three more affordable homes in Glendale. To date, no homeowner in any project built by SGV Habitat has ever had a mortgage default or resold their home. In addition, SGV Habitat will be developing a portion of the former Desiderio Army Reserve Center site with nine affordable homeownership units for low income families. SGV Habitat is a licensed California contractor and employs a licensed Responsible Managing Employee who will supervise construction and ensure that quality homes are built.

SGV Habitat will establish the following homebuyer eligibility criteria:

- Low income (i.e., 80% of Los Angeles County Area Median Income or under)
- Living in substandard, overcrowded, and/or rent-burdened conditions
- Regular household income sufficient to pay a zero percent (0%) interest mortgage that will be originated and held by SGV Habitat
- Contribute at least 500 hours of sweat equity in building their own home and the home of their neighbors

Acquisition of the Property is anticipated to occur before February 2014, with construction to commence in late 2016, after SGV Habitat completes the Desiderio project. The estimated construction period for the Manzanita project is 12 months.

KEY BUSINESS TERMS OF AFFORDABLE HOUSING LOAN AGREEMENT

- SGV Habitat shall acquire the Property and construct on it two condominium housing units (the "Project") to be marketed and sold as affordable housing to low income families.
- The predevelopment, construction, marketing, and sales cost of the Project is estimated at \$791,490. SGV Habitat shall be responsible for raising all funds for predevelopment, construction, marketing and sales of the new homes.

- The City shall provide a loan in an amount not to exceed \$175,000 to SGV Habitat to assist its purchase of the Property. City disbursement of the loan funds shall be conditioned on, among other things, SGV Habitat providing to the City an appraisal report evidencing that the Property has sufficient value, and a title report evidencing clear property title.
- The City loan shall be evidenced by a promissory note and secured by deed of trust recorded against the Property. The City loan shall bear simple interest at the fixed rate of three percent (3%) per annum.
- If the Project is completed satisfactorily in accordance with the terms of the Agreement (including the Scope of Work and Schedule of Performance), the accrued interest on the City loan will be forgiven and the outstanding principal balance will be recast as subordinate trust deed loans (the "City Homebuyer Loan") to be assumed by the home purchasers of the two housing units.
- Each City Homebuyer Loan shall be evidenced by a promissory note and secured by a deed of trust, in second lien position behind the SGV Habitat mortgage. The City Homebuyer Loan shall bear no interest, have a term of 45 years, and will be "silent" with payment deferred for the full term. If the original buyers remains in the home for the full 45-year term, the City Homebuyer Loan will be forgiven.
- Restrictive covenants in favor of the City shall be recorded against the Project, requiring that the Property be used solely for affordable housing for a duration of 45 years. If an original buyer desires to resell during the 45-year covenant period, SGV Habitat shall have first right of refusal to repurchase the home, qualify a new low-income buyer, and resell the home to that buyer. The City would have the option to allow the new buyer to assume the balance of the 45-year covenant period, or to initiate a new restrictive covenant period for the Property.
- In the event of a resale during the period that SGV Habitat holds an active mortgage and SGV Habitat does not exercise its first right of refusal to purchase, the City would have next option of purchasing the home from the owner at the prevailing affordable sales price as calculated in accordance with State affordable housing cost standards for owner-occupied housing.
- Other City policies and regulations will apply to the Project including the First Source Local Hiring ordinance and the Local Priorities and Preference policy as regards the selection of eligible homebuyers.

COUNCIL POLICY CONSIDERATION:

The proposed Project will provide two units of affordable ownership housing for low income families. The Project units will be credited towards the Regional Housing Needs Assessment (RHNA) housing production goal for Pasadena. The Project is consistent with the City's General Plan - Housing Element and the Five-Year Consolidated Plan. The proposed action also supports and promotes the quality of life and the local economy -- a goal of the City Council's Strategic Objectives.

ENVIRONMENTAL ANALYSIS:

The City financing of SGV Habitat's acquisition of the Property in an existing residential area with no unusual environmental circumstances, and the construction on Property of a two-unit housing development, does not have a significant effect on the environment and has been determined to be categorically exempt under Class 3 (New Construction or Conversion of Small Structures) of the State California Environmental Quality Act ("CEQA"), and, specifically, Section 15303 of the State CEQA Guidelines.


FISCAL IMPACT:

The proposed City loan in the amount of \$175,000 for the Habitat Manzanita project will be drawn from Housing Successor Fund #237 (Account No. 8167-237-684140) . Approval of the staff recommendation will reduce the available balance of Fund #237 to approximately \$1,173,000.

Respectfully submitted,


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