

Agenda Report

October 15, 2012

TO: Honorable Mayor and City Council

THROUGH: Economic Development & Technology Committee (October 3, 2012)

FROM: Housing Department

SUBJECT: APPROVAL OF BRIDGE FINANCING IN AN AMOUNT NOT TO EXCEED \$720,000 TO HERITAGE HOUSING PARTNERS TO IMPLEMENT PURCHASE OPTIONS ON THREE (3) INCLUSIONARY FOR-SALE HOUSING UNITS

RECOMMENDATION:

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

- 1) Find that the proposed housing financing and acquisition activity, as described in this agenda report, does not have a significant effect on the environment and has been determined to be categorically exempt under Class 26 (Acquisition of Housing) of the State California Environmental Quality Act ("CEQA") and, specifically, Section 15326 of the State CEQA Guidelines;
- 2) Approve a budget amendment, and a journal voucher appropriating \$720,000 from the Inclusionary Housing Fund Balance (Account No. 8167-619-684140), to the Housing Department FY 2013 operating budget for the HHP Bridge Financing Project;
- 3) Approve certain key business terms, as described in this agenda report, of the proposed bridge financing for Heritage Housing Partners; and
- 4) Authorize the City Manager to execute any and all documents necessary to effectuate the staff recommendation.

BACKGROUND:

The owners of three condominium units which are subject to City Inclusionary affordable housing covenants have provided written notice to the Housing Department of their intent to sell their properties. The units are located at: 1) 215 S. Marengo Avenue, Unit #216; 2) 333 N. Hill Avenue, Unit #301; and 3) 333 N. Hill Avenue, Unit #303.

The covenant agreements provide that, upon receipt of the owner's notice of intent to sell, the City may exercise its right of first refusal to purchase the property at the current

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affordable sales price and subsequently resell the property as affordable housing to an eligible low or moderate income household. If the City declines to exercise its right of first refusal to purchase, the owner may proceed to sell the property at market rate, in which case the City receives an equity share from the sales proceeds and the covenant agreement is extinguished. In the interest of preserving the long-term affordability of these Inclusionary housing units, the Housing Department has notified the owners of the City's election to exercise its right of first refusal.

The covenant agreement also provides that if the City elects to exercise its right of first refusal, it may assign its purchase option to a "nonprofit organization that is devoted to developing or preserving low and moderate income housing." Pursuant to this provision, the Housing Department proposes that the City purchase options on the three properties be assigned to local nonprofit Heritage Housing Partners ("HHP"). HHP is an experienced housing organization with a strong track record in developing, marketing and selling affordable ownership housing. HHP projects in Pasadena include Haskett Court, Fair Oaks Court, and Herkimer Gardens. Some of HHP's qualifications include:

- Staffing of 2-1/2 full time sales & marketing staff devoted to finding income-qualified first-time homebuyers and helping them get a good mortgage.
- An active, daily presence in the housing market with the current sales of the Herkimer Gardens project and Doran Gardens in Glendale.
- An interest list generated through HHP's website and Facebook page of 1,902 prospective buyers of which 786 have indicated a preference to live in Pasadena. HHP's projects in Pasadena have a high percentage of homeowners who previously lived and/or worked in Pasadena.
- Experience in working with income-qualified first-time homebuyers with credit issues, and familiarity with mortgage programs that are designed for these buyers.

To implement HHP's purchase options on the three Inclusionary housing units, it is proposed that the City extend short-term bridge financing to HHP to facilitate the timely acquisition and resale of the properties.

KEY BUSINESS TERMS OF BRIDGE FINANCING

The key terms of the proposed bridge financing are as follows:

- The total amount of the City bridge financing for the three properties shall not exceed \$720,000.
- The bridge loans shall be secured by a first trust deed on each property.
- The bridge loans shall be repaid from the proceeds of the properties as they are resold by HHP.
- The term of each bridge loan shall not exceed 90 days unless modified otherwise by the Housing Director.
- The bridge financing will be at no-cost to HHP in order to minimize the affordable housing transaction cost.

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- HHP shall acquire each property at a price which is the lesser of the current affordable sales price (as determined by the Housing Department) or fair market value per an appraisal which HHP will cause to perform.
- HHP shall re-sell the properties in compliance with the covenant agreement which binds each of the properties. HHP's resale transaction costs shall be approved by the Housing Department but in any event shall not exceed 4.00% of the affordable sales price for each unit.

COUNCIL POLICY CONSIDERATION:

The proposed action is consistent with the City's General Plan - Housing Element and the Five-Year Consolidated Plan. It also supports and promotes the quality of life and the local economy -- a goal of the City Council's Strategic Objectives.


ENVIRONMENTAL ANALYSIS:

The implementation of the staff recommendation to provide financing for the purchase of covenanted affordable housing units does not have a significant effect on the environment and has been determined to be categorically exempt under Class 26 (Acquisition of Housing) of the State California Environmental Quality Act ("CEQA"), and, specifically, Section 15326 of the State CEQA Guidelines. No further CEQA review is required for this activity.

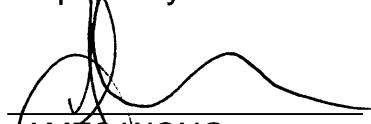
FISCAL IMPACT:

Approval of the staff recommendation to expend up to \$720,000 in Inclusionary Housing Funds for bridge financing will decrease the Inclusionary Housing Trust Fund balance to \$3,280,000. In accordance with the proposed terms of the bridge financing, the funds will be utilized by Heritage Housing Partners to acquire and resell three covenanted affordable housing units. The acquisition financing will be secured by trust deeds on the properties. The City loans will be repaid from HHP resale of the properties to qualified buyers.

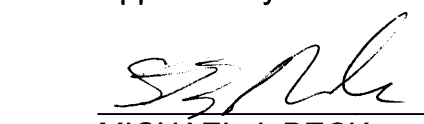
Respectfully submitted,


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