

**CITY OF OAKLAND  
COUNCIL AGENDA REPORT**

OFFICE OF THE CITY CLERK  
2005 OCT 20 AM 10:31

TO: Office of the Agency Administrator  
ATTN: Deborah Edgerly  
FROM: Community and Economic Development Agency  
DATE: January 10, 2006

**RE: A RESOLUTION AUTHORIZING THE CONVERSION OF A \$127,327 SITE ACQUISITION LOAN TO THE COMMUNITY DEVELOPMENT CORPORATION OF OAKLAND FOR THE 1574-1590 7<sup>TH</sup> STREET PROJECT TO A FORGIVEABLE AFFORDABLE HOMEOWNERSHIP DEVELOPMENT LOAN**

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**SUMMARY**

The Redevelopment Agency (the "Agency") provided a site acquisition loan in the amount of \$127,327 to the Community Development Corporation of Oakland (the "Developer") for the project located at 1574-1590 7<sup>th</sup> Street on June 26, 2003. The site acquisition loan program was authorized by Resolution No. 00-55 dated July 25, 2000 and was funded through the Affordable Housing bond authorized by Resolution 00-13 dated April 11, 2000.

The site acquisition loan carries a three year term and a simple interest rate of 4.7%. The 30-year Affordability Agreement recorded at the time required that at least 25% of the units be made affordable to households at or below 80% of Area Median Income (AMI). The Developer was originally proposing five homeownership units, two of which will be income restricted by the Agency, on a series of vacant lots near the West Oakland BART station.

As the Developer finalized their plan for the site it was determined that the project was not financially feasible, but that the project would be feasible if the loan terms could comply with the terms of the current affordable homeownership development program. Those terms would allow affordability targeting for the two units to increase from 80% AMI to 100% AMI and require the two units be sold at an affordable housing cost in perpetuity. The site acquisition loan would be converted to an affordable homeownership loan which may be forgiven when the homes are sold. Funds would be provided as a forgiveable loan rather than as a grant to ensure that, if there are problems that keep the project from being completed as planned, the City can protect its investment through a deed of trust on the property.

The Developer is not requesting any additional funds, but the project is currently not feasible unless these changes are made. Therefore, staff recommends that the loan be converted to a forgiveable affordable homeownership development loan and the targeted income limit be increased from 80% AMI to 100% AMI.

Item: \_\_\_\_\_  
Community and Economic Development Committee  
January 10, 2006

## **FISCAL IMPACT**

Of the existing \$127,327 site acquisition loan, all but \$17,532 has been disbursed, and the Developer is not requesting any additional City/Agency funds. The approval of this resolution will authorize the \$127,137 site acquisition loan, currently due and payable with interest in 2006, to be converted to a development loan which could be forgiven upon sale of the homeownership units. Previous and remaining loan funds are disbursed from Housing Development (Organization 88929), 2000 Subordinated Housing Set-Aside Bond (Fund 9583), Non-Grant Loan Expenditure (Account 58312), 1574-90 7<sup>th</sup> Avenue (Project P151822) which will remain unchanged.

## **BACKGROUND**

Resolution No. 2000-55, dated July 25, 2000, authorized the Affordable Housing Site Acquisition Loan Program with the purpose of providing loans to developers for acquisition and holding costs for affordable housing sites. The Resolution authorizes the Agency Administrator to execute agreements for individual site acquisition loans. In November 2003, the Developer submitted an application for site acquisition funds for contiguous vacant parcels located at 7<sup>th</sup> Street and Peralta in West Oakland. At that time, the Developer was investigating the options for either affordable rental or homeownership housing. The loan of \$127,137 closed on June 26<sup>th</sup>, 2003 and all but \$17,532 has been dispersed for site acquisition and closing costs.

In September, 2005, the Developer submitted a revised proposal for a five-unit homeownership development with two affordable units restricted by the Agency. Following its analysis, staff determined that the project was not feasible under the terms of the site acquisition loan. Staff worked with the Developer to determine how to make it feasible. Converting the site acquisition loan to an affordable home ownership development loan would allow the project to be feasible and provide the two affordable units at a cost to the Agency of no more than \$63,664 each.

Typically, developers who have received site acquisition loans return to the Agency for additional funds, at which point the site acquisition loan is combined with a development loan for the project. The Developer's request to convert the site acquisition loan to a forgivable homeownership development loan is consistent with prior site acquisition loan program recipients, except they do not need additional funds.

## **KEY ISSUES AND IMPACTS**

Many developers have recently struggled to make affordable homeownership projects work financially. Recent development costs for affordable homeownership projects have ranged from approximately \$400,000 to \$450,000 per unit (other than those projects such as Habitat for Humanity that use a sweat-equity model to reduce their development costs). The average development cost of a homeownership unit funded by the Agency is approximately 25% higher than for an Agency funded rental unit. Such high development costs, together with the lack of available public/private subsidies and increasing construction and insurance costs, have made it

difficult to make affordable homeownership projects targeted to 80% AMI households financially feasible.

This project will utilize the proceeds from the three market rate units to subsidize some of the costs of the two affordable units. But even with this cross-subsidy, the project is not financially feasible based on the income targeting requirements of the site acquisition loan. The site acquisition program requires the project to provide at least 25% of the units at sales prices affordable to households at 80% AMI (currently those sales prices would be approximately \$179,000). These 80% AMI sales prices would require an additional City subsidy of approximately \$50,000 per unit.

Under the proposed scenario, the City will invest \$63,664 for each affordable unit. This per unit subsidy is significantly lower than other recent affordable homeownership projects which have requested between approximately \$85,000 to \$160,000 per unit. The lower per unit City subsidy on this project is made possible by the cross-subsidization from the market rate units as well as the cost savings realized by using panelized construction techniques.

## **PROJECT DESCRIPTION**

The homeownership project at 7<sup>th</sup> & Peralta will provide five new three bedroom homeownership units, two of which must be priced to be affordable to households earning not more than 100% of AMI. The new townhomes will be located on what is currently a vacant lot within close proximity to the West Oakland BART station. The project has already received approvals from the planning department and is preparing to submit for a building permit. The Developer plans to use panelized construction, where some elements of the buildings are assembled elsewhere and brought to the site. This is expected to shorten the development schedule and reduce costs. This project will contribute to current redevelopment in the neighborhood, such as the nearby Mandela Gateway development.

The market rate sales prices of the three unrestricted units are currently estimated at between \$480,000 to \$550,000. By contrast, the units targeted to households at 100% AMI are estimated to sell for approximately \$258,000. This affordable sales price is determined based on a calculation that takes into account the target income limit and the current interest rate, as well as principal and interest payments, mortgage insurance, property taxes, hazard insurance, utilities, and a repair reserve. A Declaration of Resale Restrictions will be recorded when an affordable unit is sold and will be assumed by each subsequent homebuyer. When the unit is resold, the City will re-calculate the affordable sales price and will income qualify the new buyer, providing an affordable homeownership resource in perpetuity.

## **SUSTAINABLE OPPORTUNITIES**

Economic: The project will expand the housing inventory in Oakland. It will create the potential for construction jobs in the neighborhood. The Oakland-based Developer will be

required to comply with the City's contract compliance programs including living wage, prevailing wage, and the local and small/local business hiring requirements.

Environmental: This in-fill development project will discourage development on greenfields. Its location near the West Oakland BART station will encourage transit use by the future residents. It is also located near to schools, parks, and other amenities. The project will eliminate waste with the use of pre-fabricated panelized construction. Energy efficient windows and energy-star appliances will be installed.

Social Equity: Two units will be sold in perpetuity at prices affordable at 100% of AMI. This price is far below the neighborhood and City's market rate home sales prices. The development will be located on a blighted vacant lot and will contribute to the revitalization of the 7<sup>th</sup> Street corridor in West Oakland.

### **DISABILITY AND SENIOR CITIZEN ACCESS**

The State's Title 24 and the Americans with Disabilities Act (the "ADA") require consideration of persons with disabilities in the design and construction of housing. One affordable unit will include adaptable features for persons with mobility impairments.

### **RECOMMENDATION AND RATIONALE**

Staff recommends that the Agency approve the resolution allowing the site acquisition loan to convert to a forgivable affordable homeownership development loan and the income limit to be increased from 80% to 100% AMI. This will provide sufficient sales proceeds to cover the existing budget gap without requiring additional subsidy from the Agency and while still complying with the requirements of the current affordable homeownership development program.

### **ALTERNATIVE RECOMMENDATION**

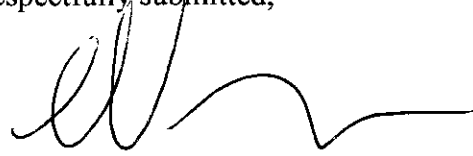
The Agency may choose not to approve the change in terms. If the Agency does not approve the recommended change in loan terms and resale restrictions, the project would require additional Agency subsidy of approximately \$100,000. These funds would need to be requested through the Agency's Notice of Funding Availability (NOFA) process in 2006 and would result in the project being delayed for an additional 15 months.

In summary, the alternative is not recommended because it will require additional Agency subsidy and would delay the project's completion, potentially resulting in further construction cost increases.

**ACTION REQUESTED OF THE CITY COUNCIL**

Staff recommends that the Agency approve the attached resolution to convert the site acquisition loan to a forgivable affordable homeownership development loan, increase the affordability targeting for the two affordable units to 100% AMI and require the units be kept affordable in perpetuity.

Respectfully submitted,



**DAN VANDERPRIEM**

**Director of Redevelopment, Economic  
Development and Housing**

Reviewed by:

Sean Rogan, Director, Housing and Community  
Development

Prepared by:

Diana Downton  
Housing Development Coordinator

APPROVED AND FORWARDED TO THE  
COMMUNITY AND ECONOMIC DEVELOPMENT COMMITTEE:

  
\_\_\_\_\_  
AGENCY ADMINISTRATOR

## REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Resolution No. \_\_\_\_\_ C.M.S.

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**A RESOLUTION AUTHORIZING THE CONVERSION OF A  
\$127,327 SITE ACQUISITION LOAN TO THE COMMUNITY  
DEVELOPMENT CORPORATION OF OAKLAND FOR THE  
1574-1590 7<sup>TH</sup> STREET PROJECT TO A FORGIVEABLE  
AFFORDABLE HOMEOWNERSHIP DEVELOPMENT LOAN**

**WHEREAS**, Resolution No. 00-13 C.M.S., which authorized issuance of tax allocation bonds for affordable housing (the "Affordable Housing Bond"), required that Affordable Housing Bond proceeds be used to develop housing for households at or below 80% of area median income (AMI); and

**WHEREAS**, on July 25, 2000, the Redevelopment Agency adopted Resolution No. 00-55 C.M.S. authorizing funds for site acquisition loans for affordable housing sites up to a total of \$10 million from the Affordable Housing Bond; and

**WHEREAS**, on June 26, 2003, the Redevelopment Agency authorized a site acquisition loan of \$127,327 to the Community Development Corporation of Oakland (the "Developer") for parcels located at 1574-1590 7<sup>th</sup> Street; and

**WHEREAS**, the site acquisition loan is due and payable on June 26, 2006, and requires that at least 25% of units be targeted at households at or below 80% of AMI; and

**WHEREAS**, increasing construction costs and the lack of other subsidies for homeownership make the Project financially infeasible under the current terms of the site acquisition loan; and

**WHEREAS**, in order to make the project feasible, the Developer has proposed the new construction of five homeownership units, two of which will be sold at an affordable sales prices to households at or below 100% of AMI (the "Project"); and

**WHEREAS**, converting the site acquisition loan to a forgiveable affordable homeownership development loan would create a financially feasible Project by allowing the income limit for the restricted units to increase to 100% of AMI, extending the term of the loan, and forgiving the development loan when the units are sold; and

**WHEREAS**, the City of Oakland's Consolidated Plan for Housing and Community Development indicates that there is a need for affordable ownership housing, and has identified this activity as a priority; and

**WHEREAS**, the Project is consistent with the Agency's Project Development Guidelines, and Developer meets the Agency's Threshold Developer Criteria; and

**WHEREAS**, the Project will increase and improve the supply of low and moderate income housing available in the City of Oakland, is an eligible use of the Agency's Low and Moderate Income Housing Fund under California Health and Safety Code Sections 33334.2 and 33334.3, and will benefit the redevelopment project areas in the City of Oakland by providing affordable housing opportunities within the community that will enhance the economic viability and redevelopment potential of the project areas; and

**WHEREAS**, no other reasonable means of private or commercial financing of the Project at the same level of affordability and quantity are reasonably available to Developer other than the Low and Moderate Income Housing Fund; and

**WHEREAS**, the Agency by agreement with the City is the Lead Agency for this Project for purposes of environmental review under the California Environmental Quality Act of 1970 ("CEQA"); and

**WHEREAS**, the requirements of CEQA, the CEQA Guidelines as prescribed by the Secretary for Resources, and the provisions of the Environmental Review Regulations of the City of Oakland have been satisfied; now, therefore, be it

**RESOLVED:** That the Redevelopment Agency hereby authorizes the Agency Administrator or her designee to convert the \$127,327 site acquisition loan to the Developer for 1574-1590 7<sup>th</sup> Street to a forgivable affordable homeownership development loan for the Project; and be it further

**RESOLVED:** That the loan shall be for a maximum term of four years with an interest rate of three percent per year, and up to the full amount of the loan could be forgiven when all Project units are sold; and be it further

**RESOLVED:** That Resolution No. 00-13 C.M.S. is revised to allow the two affordable Project units to be sold to households up to 100% of AMI and that these be kept affordable to households at this income level in perpetuity; and be it further

**RESOLVED:** That as a condition of the loan, the Agency will require that appropriate restrictions on the sale and resale of the two affordable Project units be recorded against Project improvements; and be it further

**RESOLVED:** That the loan shall be secured by a deed of trust on the Project land and/or improvements; and be it further

**RESOLVED:** That conversion of the loan shall be contingent on Developer's success in securing commitments for full Project funding, or other assurances of adequate Project funding

the Agency Administrator or his or her designee deems sufficient within his or her discretion; and be it further

**RESOLVED:** That the conversion of the loan shall be contingent on and subject to such other appropriate terms and conditions as the Agency Administrator or his or her designee may establish; and be it further

**RESOLVED:** That the Agency hereby authorizes the Agency Administrator or his or her designee in his or her discretion to subordinate the priority of the Agency 's deed of trust and/or recorded restrictions to a lien or encumbrance of another private or governmental entity providing financial assistance to the Project, if the Agency Administrator or his or her designee determines that (1) an economically feasible alternative method of financing the Project on substantially comparable terms and conditions but without subordination is not reasonably available, (2) the Agency's investment in the Project in the event of default is reasonably protected, and (3) subordination is in the best interests of the Agency; and be it further

**RESOLVED:** That all loan documents shall be reviewed and approved by Agency Counsel for form and legality prior to execution, and copies will be placed on file with the Agency Secretary; and be it further

**RESOLVED:** That the Agency has independently reviewed and considered this environmental determination, and the Agency finds and determines, based on the information provided in the staff report accompanying this Resolution, that this action complies with CEQA because the Project is categorically exempt from CEQA pursuant to Section 15303 (small structures), and Section 15315 (other) of the CEQA Guidelines; and be it further

**RESOLVED:** That the Agency Administrator or his or her designee shall cause to be filed with the County of Alameda a Notice of Exemption for the Project; and be it further

**RESOLVED:** That the Agency hereby appoints the Agency Administrator and his or her designee as agent of the Agency to conduct negotiations, execute documents, administer the loan, extend or modify the repayment terms, and take any other action with respect to the loan , the conversion, and the Project consistent with this Resolution and its basic purpose.

IN AGENCY, OAKLAND, CALIFORNIA, \_\_\_\_\_, 2006

**PASSED BY THE FOLLOWING VOTE:**

AYES - BRUNNER, KERNIGHAN, NADEL, QUAN, BROOKS, REID, CHANG, AND  
CHAIRPERSON DE LA FUENTE

NOES --

ABSENT --

ABSTENTION --

ATTEST:

\_\_\_\_\_  
LATONDA SIMMONS  
Secretary of the Redevelopment Agency  
of the City of Oakland, California