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OFFICE OF THE CITY CLERK  
**OAKLAND REDEVELOPMENT AGENCY**

**AGENCY AGENDA REPORT**

2004 DEC -1 PM 3:02

TO: Agency Administrator  
ATTN: Deborah Edgerly  
FROM: Community and Economic Development Agency  
DATE: December 14, 2004

RE: **A Resolution to Amend Resolution No. 2004-11. C.M.S. to Increase the Maximum Income Limit for Qualified Purchasers to 100% of the Area Median Income (AMI) for Sausal Creek Townhomes Project Located at 2464 26<sup>th</sup> Avenue**

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### **SUMMARY**

The Redevelopment Agency (the "Agency") approved funding in the amount of \$2,329,000 to Homeplace Initiatives Corporation (the "Developer") for the Sausal Creek Townhomes Project, located at 2464 26<sup>th</sup> Avenue, with Resolution No. 2004-11 C.M.S., dated February 17, 2004. The project will consist of 17 affordable ownership units. The Resolution designates nine units to be sold at prices affordable to households earning no more than 80% of Area Median Income (AMI) and eight units to households earning no more than 100% of AMI. Due to an increase in construction costs, the affordability mix specified in the Resolution is no longer feasible. By increasing the income limit for the nine units that are designated at 80% of AMI to 100% of AMI, the sales prices can be set higher and the total sales proceeds will increase sufficiently to cover the gap created by the increased construction costs. Staff hereby recommends that Resolution No. 2004-11 C.M.S. be amended to allow all the project units to have a maximum income limit of 100% AMI, which is within the limit of Council policy adopted in April 2004. No additional Agency funds are requested in this recommendation.

### **FISCAL IMPACT**

No additional Agency funds are needed, and therefore, no fiscal impact is expected by this action.

### **BACKGROUND**

Homeplace Initiatives Corporation (HIC), a subsidiary of East Bay Asian Local Development Corporation (EBALDC), submitted a proposal for the Sausal Creek Townhomes project (17 units) in response to an RFP issued by the Oakland Community Land Trust (OCCLT) in the summer of 2003. OCCLT selected the project and committed \$2.3 million of development subsidy from the Agency funds allocated to OCCLT projects by the Agency Resolution No. 02-79 C.M.S. However, OCCLT ceased operations in the fall of 2003 due to difficulties in securing operating support from non-Agency sources. On February 17, 2004, Resolution No. 2004-13 C.M.S. was adopted to terminate funding for the OCCLT program and to reallocate \$4.95 million of unused program funds to other affordable housing projects. Also on February 17, 2004, the Agency approved Resolution 2004-11 C.M.S., authorizing \$2,329,000 of the reallocated funds for Sausal Creek Townhomes.

## **KEY ISSUES AND IMPACTS**

### Main Issues

Resolution No. 2004-11. C.M.S. specifically states that nine project units are to be affordable to households earning no more than 80% of AMI and eight units to households earning no more than 100% of AMI. In the time since the project was funded, the project has encountered two major problems that made the project infeasible as originally configured.

First, the developer was not able to obtain funding from the Affordable Housing Program (AHP), a program sponsored by the Federal Home Loan Bank, as a potential source of the gap financing. Initially, the developer was planning on obtaining \$170,000 from AHP. However, it became clear that the project would not be competitive for the program due to the higher targeted incomes (80% of AMI and 100% of AMI) compared to rental projects targeted for households earning 35%-80% of AMI. As a result, AHP funding was taken out from the project sources, which created a gap of \$170,000.

Second, the hard and soft costs, in particular concrete and steel, have increased considerably since the time of application. At the time the project was recommended to the Agency, the development budget had \$3.6 million for the hard costs and \$1.6 million for the soft costs. During the contractor bidding process in September 2004, the developer found that the construction costs are much higher than they estimated a year ago. The construction cost is now estimated at \$4 million. The soft cost figure was increased accordingly to \$1.7 million. As a result, the total development cost has gone up by \$522,300. These two changes have created an overall gap of \$692,300 and make the project financially infeasible.

The original and revised development budgets as well as revised sales analysis are attached as Attachment A.

### Trend of Recent Homeownership Projects

Many affordable homeownership projects in the City have also struggled to make the financing work for units targeted for low-income households. The average development cost per unit for the ownership units that were funded by the City/Agency from 2001-2004 is \$333,890, which is approximately 25% higher than the rental units during the same period. Such high development costs, together with the lack of public/private subsidies, have made it difficult to fund affordable home ownership projects targeted to lower income households. The rapidly increasing cost of construction defect insurance for attached ownership projects has had major impacts on the feasibility of ownership projects targeted for lower-income households as well. These factors may have discouraged developers from submitting homeownership applications for this NOFA round (the application deadline was November 16, 2004). The table below shows data on recently funded homeownership projects in Oakland.

	<b>Palm Villas</b> (78 units)	<b>Chestnut Court</b> (15 units)	<b>Mandela Gateway</b> (14 units)	<b>Calaveras Townhomes</b> (28 units)*
<b>Status</b>	Under construction	Completed in 2003	Predevelopment	Predevelopment
<b>Per unit Cost</b>	\$321,118	\$304,273	\$394,470	\$342,928
<b>Per unit Subsidy</b>	\$104,923	\$115,133	\$136,957	\$137,801
<b>Maximum Income</b>	78 units at 120% AMI	8 units at 80%AMI; 6 units at 100%AMI	8 units at 80%AMI; 6 units at 100%AMI	17 units at 80%AMI, 11 units at 100%AMI

\* Numbers are from the NOFA proposal submitted in the fall 2003

Recognizing such trends in the cost of ownership housing development, the Agency adopted a policy of increasing the maximum income levels for ownership projects from 100% of AMI to 120% of AMI, as long as the average income in the project does not exceed 100% AMI, in April 2004. This project was funded in February 2004 under an older Agency policy that limited the affordability level to 100% of AMI, and therefore, is not subject to the new policy.

## PROJECT DESCRIPTION

### Proposed Solution to Closing the Gap

In order to fill this gap, the developer needs to identify another funding source. However, it is clear that funding sources for affordable ownership projects are very limited. For most of the affordable ownership projects in the City, the Agency/City funds have been the only public subsidies available to close the gap between the development costs and the sales proceeds. In this case, the developer has not been able to identify other funding sources. Therefore, to avoid additional Agency subsidies to the project, the sales proceeds would need to be increased to cover the gap.

By increasing the affordability level of the eight units currently targeted to households earning no more than 80% of AMI to 100% of AMI, the total sales proceeds will increase by \$640,000. With \$52,600 in additional contributions by EBALDC Foundation, the current gap will be eliminated. Thus, the project does not require additional funds from the Agency.

It should be noted that increasing the maximum income limit will not eliminate ownership opportunities for low-income families earning 80% of AMI or below. Low-income families can still qualify for the units as long as they are able to put in larger down payments. This developer is committed to providing housing opportunities to low-income families and will pursue comprehensive community outreach and marketing strategy to recruit and assist low-income buyers. Such efforts include partnerships with community organizations and non-profit affordable housing property managers for marketing the units, and developing strategic partnerships with financial institutions, particularly those that are already approved by the City, CALHFA, Alameda County (Mortgage Credit Certificate Program), and other first time homebuyer programs.

### Sausal Creek Townhomes Project Descriptions

#### *Background*

The project site is approximately 25,000 square feet and is located in a residential neighborhood of the San Antonio district. The property had long been a concern of the community. There are two blighted duplexes with a vacant frontage, which had attracted illegal dumping over the years. HIC entered into an option to purchase agreement with the owner in July 2002. The project was envisioned to be the first project by the OCCLT. HIC submitted a proposal for Sausal Creek Townhomes to OCCLT in September 2002 and was selected for funding of \$2.3 million. However, as mentioned in the "Background" section of this report, OCCLT was not able to move forward and ceased its operation in the fall of 2003 due to the lack of operating funds. In February 2004, the Agency authorized funding of the Project from the reallocated OCCLT funds. HIC acquired the site in May 2004 and has made some improvements on the site, including removal of trash, securing of the property with fencing, plumbing repair, boarding up of a blighted structure, and relocation of tenants.

#### *Physical Features*

The proposed project will consist of nine 2 bedroom units and eight 3 bedroom units. All units will have private outdoor space and overlook the common walkways and circulation paths. The 3,500 square foot common open space and children's play area will be centrally located on the site and focused on a heritage oak tree. The project will bring a positive impact to the neighborhood by transforming two blighted duplexes and vacant frontage on the 26<sup>th</sup> Avenue into a new 17-unit townhome project.

#### *Financing*

The total development budget as of November 2004 is \$6,472,224 (per unit cost of \$380,700). The project will be financed by the Agency funds of \$2,329,000, EBALDC Foundation funding of \$242,580 and the sales proceeds of \$3,900,645 (assuming all units at 100% of AMI and using projected 2006 income limits). The Agency funds account for 36% of the total development costs. Per unit Agency subsidy is \$137,000. It is anticipated that the entire Agency funds will be forgiven when the units are sold in order for the developer to sell the units at affordable prices.

#### *Affordability*

The project will provide much needed ownership opportunities to low- and moderate-income families earning no more than 100% of AMI (\$82,200 for family of four in 2004, projected at \$87,206 in 2006). The units are anticipated to be completed and sold in 2006, at a projected sales price of \$218,925 for a 2 bedroom unit with a 3 person household and \$241,290 for a 3 bedroom unit with a 4 person household. The Agency will make sure that the project units are kept permanently affordable by recording a Declaration of Resale Restrictions on each subdivided parcel at sales. At resale, subsequent homeowners will be required to sell their units to low- and moderate-income households at affordable prices.

## **SUSTAINABLE OPPORTUNITIES**

The proposed project will provide a variety of sustainable opportunities to the local community. By creating new housing on a lot that has been underutilized, the project will reduce blight and bring a positive impact on the surrounding community. The project will utilize the existing infill site, in keeping with the smart growth principles of preserving open space and utilizing existing resources.

Affordable housing shortage continues to be a critical social and economic issue in the region. By creating ownership opportunities for low-and moderate-income families, the project will increase the affordable housing stock in the City of Oakland. The project units will remain affordable permanently and prevent gentrification of the community.

In addition, developing ownership housing in the low-and moderate-income community will enhance the degree of local ownership, while promoting neighborhood stability. The increased homeownership rate will contribute to the long term stabilization and improvement of the San Antonio district.

## **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. The project will provide one accessible unit that conforms to the ADA regulations. Furthermore, the developer will be required to devise a strategy to effectively market housing units to the disabled community and present this strategy as part of their Affirmative Fair Marketing Plan.

## **RECOMMENDATION(S) AND RATIONALE**

Staff recommends that the Agency approve the resolution to increase the maximum income limit for all project units to 100% of AMI. This will allow the developer to increase the sales prices and the sales proceeds that are necessary to cover the existing gap, caused by the increase in development costs, without requiring additional subsidy from the Agency.

## **ALTERNATIVE RECOMMENDATIONS**

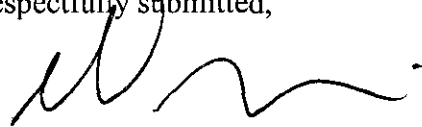
The Agency may choose not to approve an increase in the targeted income level. Without increasing the sales proceeds, the project will have a gap of \$692,300. In this case, the developer needs to identify another funding source or reconfigure the project. Most likely, the project will require additional Agency subsidy in the amount ranging from \$500,000 to \$1 million in order to maintain the original targeted income mix. Considering that the current NOFA deadline has passed, the developer would have to reapply for the next NOFA round. The project may not be funded in that round. Even if the project is funded, the project schedule will be delayed for at least a year.

In summary, this alternative is not recommended because it will require additional Agency subsidy for the project and also delay the project completion.

**ACTION REQUESTED OF THE CITY COUNCIL**

Staff recommends that the Agency approve the attached resolution amending Resolution No. 2004-11. C.M.S. to increase the maximum income limit for qualified purchasers to 100% AMI for all Project units.

Respectfully submitted,



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

Reviewed by:

Janet M. Howley  
Interim Director  
Housing & Community Development

Marge L. Gladman  
Acting Manager, Housing Development

Prepared by:

Eri Kameyama  
Housing Development Coordinator

APPROVED AND FORWARDED TO THE  
COMMUNITY AND ECONOMIC  
DEVELOPMENT COMMITTEE:



**AGENCY ADMINISTRATOR**

**Attachment A:** Comparison of Original Development Budget and Revised Development Budget, Revised Sales Analysis

### Comparison of Original Budget (Nov. 2003) and Revised Budget (Nov. 2004)

Sausal Creek Townhomes Number of Units - 17 Square footage - 19048	Nov. 2003 Development Budget	Nov. 2004 Development Budget	Increase (Saving)
<b>ACQUISITION</b>	\$ 425,000	\$ 425,000	\$ -
<b>HARD COSTS</b>	\$ 3,613,197	\$ 3,963,386	\$ 350,189
<b>SOFT COSTS</b>	\$ 1,556,749	\$ 1,728,838	\$ 172,089
<b>DEVELOPER FEE</b>	\$ 355,000	\$ 355,000	\$ -
<b>TOTAL</b>	\$ 5,949,946	\$ 6,472,224	\$ 522,278

Sources	Nov. 2003	Nov. 2004	Increase (Gap)
AHP	\$ 170,000	\$ -	\$ (170,000)
EBALDC Foundation Funding	\$ 190,000	\$ 242,580	\$ 52,580
ORA	\$ 2,329,000	\$ 2,329,000	\$ -
Sales Proceeds	\$ 3,260,946	\$ 3,900,645	\$ 639,699
<b>TOTAL</b>	\$ 5,949,946	\$ 6,472,225	\$ 522,279

### Sausal Creek Townhouses Revised Sales Analysis (As of Nov. 2004)

#### Target Buyers:

Unit Type	Persons	AMI	Number of Units	2006 Income
2 Bedroom	3	100%	9	\$ 78,507
3 Bedroom	4	100%	8	\$ 87,206

#### ASSUMPTIONS

Minimum Downpayment	5%
Interest Rate for Buyer	7%
Loan Term of Buyer (Years)	30
Affordable Housing Cost (as a % of Income)	35%
Loan to Value Ratio	95%
Sales Cost Percentage	6%

ANALYSIS	2 BD/ 3 person	3 BD/ 4 person
90% AMI *	\$70,656	\$78,485
Monthly Income	\$5,888	\$6,540
Monthly Affordable Housing Cost	\$2,061	\$2,289
Mortgage P/I	\$1,387	\$1,529
Other Housing Costs	\$674	\$757
Affordable First Mortgage	\$208,500	\$229,800
Buyer Downpayment	\$10,946	\$12,065
<b>Affordable Sales (Housing Price)</b>	<b>\$218,925</b>	<b>\$241,290</b>

\* Per state law, affordable housing costs for 100% AMI units must be calculated at 90%AMI

**TOTAL SALES PROCEEDS** \$ **3,900,645**

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OFFICE OF THE CITY CLERK  
OAKLAND

Approved as to form and legality:

2004 DEC -1 PM 3:02

By: 

Agency Counsel

## REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

RESOLUTION No. \_\_\_\_\_ C.M.S.

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**A RESOLUTION TO AMEND RESOLUTION NO. 2004-11  
C.M.S. TO INCREASE THE MAXIMUM INCOME LIMIT  
FOR QUALIFIED PURCHASERS TO 100% OF AREA  
MEDIAN INCOME FOR THE SAUSAL CREEK  
TOWNHOMES PROJECT LOCATED AT 2464 26<sup>TH</sup>  
AVENUE**

**WHEREAS**, on February 17, 2004, the Redevelopment Agency adopted Resolution No. 2004-11 C.M.S. authorizing a development loan in an amount not to exceed \$2,329,000 to Home Place Initiatives. (the "Developer") for the 17-unit Sausal Creek Townhomes Project located at 2464 26<sup>th</sup> Avenue (the "Project"); and

**WHEREAS**, the original proposal included a targeted income mix of nine units at 80% of Area Median Income ("AMI") and eight units at 100% of AMI; and

**WHEREAS**, recent inflation in the prices of concrete, steel and wood, in addition to other unexpected factors, contributed to the increase of the total development costs by half a million dollars since the time of Project proposal; and

**WHEREAS**, the Developer has requested that the original targeted maximum income limit for the nine units be increased from 80% of AMI to 100% of AMI, thereby increasing the sales proceeds to cover the increase in the development costs; and

**WHEREAS**, increasing the income limit to 100% of AMI would allow the developer to cover the gap without requesting additional City/Agency funding; now therefore, be it

**RESOLVED:** That the Redevelopment Agency hereby amends Resolution No. 2004-11 C.M.S. to increase the maximum income limit for nine



Project units from 80% of AMI to 100% of AMI, bringing the maximum income limit for all Project units to 100% of AMI.

IN AGENCY, OAKLAND, CALIFORNIA, \_\_\_\_\_, 2004

**PASSED BY THE FOLLOWING VOTE:**

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

NOES-

ABSENT-

ABSTENTION-

ATTEST: \_\_\_\_\_

\_\_\_\_\_  
CEDA FLOYD  
Secretary of the Redevelopment Agency  
of the City of Oakland