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HOUSING

AUTHORITY OF THE
CITY OF SANTA BARBARA

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August 3, 2007

HAND DELIVERED

Mr. Steven Faulstich, Housing Programs Supervisor
Housing & Redevelopment Division
City of Santa Barbara
630 Garden St.
Santa Barbara, CA 93101

RE: REQUEST FOR CITY GRANT OF HOME FUNDS FOR THE ACQUISITION OF REAL PROPERTY LOCATED AT 633 DE LA VINA ST.

Dear Steven:

As you know, the Housing Authority has been looking at acquiring some existing apartment buildings to add to its affordable housing inventory. Current market conditions are such that "buying existing units and fixing them-up" can be less costly then new construction.

The one property we are presently pursuing is a small 8 unit complex located on the S/W corner of De La Vina and West Cota Sts.—633 De La Vina to be exact. While it suffers from some deferred maintenance, it's pretty basic with two buildings and a total of 8 units—6 one-bedroom units and 2 two-bedroom units. It is important to note that one and two-bedroom units are our biggest demand from a waiting list perspective. This property is also located in the Central City Redevelopment project area and our ownership would lead to needed landscape improvements and beautification of this otherwise drab corner.

In February of this year, the property was appraised for $1.9 million (see enclosed appraisal report by David Jasso & Associates). We have been able to negotiate a favorable, below market purchase price with the owner at $1.7 million. And while we have requested and will soon receive an update of the Jasso appraisal, it is highly doubtful that it will come in below the $1.7 million price that we have settled on. A copy of the update will, of course, be provided to you once it is received.

Be advised that the Housing Authority Commission likes the property as an addition to the Authority's Non HUD public housing inventory and to that end adopted Resolution No.2276 last May (copy enclosed). It directed me to begin negotiations for the property's purchase.

As we have discussed, securing affordable rental housing for low income persons in our market today requires local subsidy. Pursuant to our discussions with Simon Kiefer of your office, we feel the most appropriate and straight-forward approach to this acquisition would be a grant of federal HOME funds in the amount of $741,080. This equates to the current HOME subsidy limits for 3 one-bedroom and 2 two-bedroom units in our market area. The 5 units for which the subsidy is received would be subject to HOME rent and income limitations. As we told Simon, 5 of the 8 units currently have Section 8 tenancies and we know that the households are all below the low HOME

income limits. So eligibility and non displacement works for 5 units and it is one of the reasons we seek HOME funding. As for the other 3 tenancies, we suspect that they are all lower income (below 80% of AMI) and thus meet our criteria for our Non HUD program under which this property will operate. We will confirm that through interviews of the tenants once we get closer to an actual purchase. Should any of them be over 80% of AMI, I believe the Housing Authority Commission will approve leaving them in place to avoid displacement and relocation costs and let the units convert through attrition.

As the enclosed proforma shows, the balance of our price would be in the form of a seller carry-back, Housing Authority tax exempt note issuance of $958,290 at 5%. It also shows that we are willing to take on this property with a negative cash flow—further supporting our request for a grant versus a loan. The Housing Authority will also be expending $35,000 of its own resources for bond counsel, closing costs and architectural work needed for the rehabilitation effort we will undertake following our purchase.

We estimate rehab costs to be in the $250,000 to $300,000 range in order to bring the property to the Authority's high standard for neighborhood and resident satisfaction. While we are not identifying the resources for the rehab effort at this juncture, we will explore various options over the next year. That will include an analysis of Authority replacement reserves in its Non HUD program, state and local rehab programs, etc. In any event, we are confident that we will be able to get the property to a much better condition and preserve it for years to come in a relatively short time frame.

If our grant request could secure your support and be placed before the City Council in the next 30 days, it would be greatly appreciated. With that moving forward, we would feel confident about engaging bond counsel for the needed tax-exempt, seller carry-back financing and working to close this transaction in September or October.

As always, the Housing Authority Commission and Staff are hopeful that you will agree with us on the wisdom of this acquisition as well as the structure of our proposed financing.

Sincerely,

HOUSING AUTHORITY OF THE
CITY OF SANTA BARBARA

ROBERT G. PEARSON
Executive Director/CEO

Encls.

cc: Housing Authority Commission
S. Szymanski, Chief Operating Officer
R. Maccianti, Property & Development Director
R. Lawrence, Finance Director
R. Fredericks, Administrative Services Director

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