



# CITY OF SANTA BARBARA

## FINANCE COMMITTEE AGENDA REPORT

**AGENDA DATE:** April 15, 2008

**TO:** Finance Committee

**FROM:** Housing and Redevelopment Division, Community Development Department

**SUBJECT:** Acquisition Loan To City's Housing Authority For 512-518 Bath Street

### **RECOMMENDATION:**

That the Finance Committee consider and recommend to the Agency Board approval of a \$4.8 million loan of Redevelopment Agency housing funds to the City's Housing Authority for acquisition and landbanking of a new affordable housing project site located at 512-518 Bath with funding contingent upon Agency Counsel's review and approval of issues related to title and environmental review, and appropriate \$4.8 million from the Agency's housing fund unappropriated reserves.

### **DISCUSSION:**

The City's Housing Authority requests a \$4.8 million loan to acquire the property located at 512-518 Bath Street – a site found suitable for land-banking for future development of affordable housing for the chronic homeless and downtown workers (see Attachment 1, request letter). The site borders directly on Mission Creek and has existing structures within the creek setback.

#### Property

The property, currently owned by the Bradley Family Trust, is a large 1.1 acre site located on Bath Street near West Haley (see Attachment 2, Location Map). The site is currently improved with four small dilapidated houses (circa 1900) and a 10-unit apartment building with related carports and a swimming pool (circa early 1960s). Based upon a site visit and records search, the City Historian has determined that an Historic Structures Report not be required but suggests that the sandstone retaining wall and steps in front of 514 Bath Street be retained. The apartment building and related carport and swimming pool are in fair condition and sit toward the rear of the lot in a location that encroaches into the existing 25-foot setback for Mission Creek. Questions remain, however, concerning the property's boundary descriptions. The northern boundary along Mission Creek is based on a 1928 survey, and the title company will not insure against adverse claims based on subsequent changes in topography caused by accretion or erosion along Mission Creek. The legal description also does not reflect the configuration of the southeasterly boundary as it appears on the County Assessor's Map. The Housing Authority has ordered a new ALTA title policy and survey that is currently underway in order to clarify these issues. Execution of the proposed Agency acquisition loan would be subject to approval of the new ALTA title policy and survey by Agency Counsel and the City's Real Property Agent.

The Housing Authority has also ordered a Phase I environmental study that is currently underway. Execution of the proposed Agency acquisition loan would be also subject to staff review of the environmental report.

#### Land Transaction

The Housing Authority has entered escrow on the property at a negotiated purchase price of \$4.8 million. The Housing Authority appraised the property at a value as of December of \$4.6 million. A subsequent sellers' commissioned review appraisal set the fair market value at \$5,450,000. The ensuing negotiated purchase price of \$4.8 million appears to be reasonable and fair.

The purchase price reflects the decline in local real estate values, as a 2004 appraisal set the property value at \$6,350,000. The purchase price (\$101 per square foot) also compares favorably with that paid by the Housing Authority in 2006 with Agency funds for the Haagen Printing site (\$119 per square foot).

#### Potential for Developing Affordable Housing

The 47,485 square foot site is in an R-3 zone. The base density allows for the development of 29 studio units. It is likely that the Housing Authority will request a significant density bonus when they propose a specific project, as they estimate that about 50 small units could be built on the site (45 units per acre). This would be comparable to their Casa de Las Fuentes project (54 units per acre), taking into account the increased creek setback planned at the rear of the property.

For this site, the Housing Authority plans to build a mix of housing for downtown workers and for the chronic homeless – consistent with the City's participation in the County Ten-Year Plan to End Chronic Homelessness. While they would prefer to split the units evenly, they may plan more homeless units and fewer downtown worker units in order to secure competitive funding sources like tax credits for construction. The Agency would have authority to approve the type and size of affordable housing project pursued on the site by the Housing Authority.

During predevelopment of the new project, the Housing Authority will correct deficiencies and continue to operate and maintain the existing 10-unit building until they are ready to clear the site. The Housing Authority plans to start construction within three years of acquisition.

#### Creek Setback

As mentioned above, existing improvements on the property encroach into the current 25-foot setback for Mission Creek. The Housing Authority plans to develop the new housing project away from the back of the property at Mission Creek and toward the front of the property at Bath Street. This would keep development well away from any planned creek redesign.

#### Proposed Agency Funding

The proposed Agency loan would be tailored to a land-banking situation. For the first three years, it would be a no-interest, deferred loan. At the beginning of the fourth year the loan would become a fully amortized 3-percent interest loan with a 10-year term.

However, the Agency would have an option at the beginning of the fourth year to convert the loan to a standard, 30-year, 3-percent interest loan with payments based on residual receipts (payments due to the extent that the project has a positive cash flow) and with a balloon payment due upon maturity – an option the Agency could execute if sufficient progress were made on developing a suitable project.

The Housing Authority might also request additional financial assistance from the Agency for construction of the project. If 50 units were developed, the proposed \$4.8 million Agency acquisition loan would constitute a subsidy of \$94,000 per unit. If the Agency were to provide an additional \$1 million for construction, then the total subsidy would be \$116,000 per unit. The proposed subsidy levels are consistent with those for other recent projects.

There are sufficient housing funds for the proposed acquisition loan. For 2008 there are about \$6.9 million in Agency housing funds and \$1.1 million in federal HOME funds. This is sufficient to cover the acquisition proposed here (\$4.8 million) and the funds needed by Transition House for developing the Mom's Property (\$800,000). By the time additional funds are needed for the project planned for the Haagen Property (up to \$2.7 million), 2009 Agency and HOME funds would be available, adding an estimated \$3.2 million.

The proposed Agency acquisition loan would be secured by a deed of trust on the property in first position during the land-banking/predevelopment phase. Depending on the nature of the financing the Housing Authority secures for developing the project, the Agency may be asked to subordinate to other financing sources.

#### Replacement Housing Plan

California Redevelopment Law requires that before an Agency provides financial assistance to a project where affordable housing is destroyed or removed, a plan must be prepared to replace the lost housing with at least as many affordable units and at least as many bedrooms within a time period of no more than four years. Staff is currently preparing a replacement housing plan that meets the legal requirements and will be asking the Agency Board to adopt the plan by resolution on April 22.

#### Relocation

Tenants of the old dilapidated houses are voluntarily being provided relocation assistance by the seller in an amount comparable to the benefits provided by the City's Tenant Displacement Assistance Ordinance.

Tenants of the 10-unit apartment building will be allowed to stay in occupancy during the land-banking/predevelopment period. When the Housing Authority gets ready to clear the site for development of the new affordable housing project, tenants will receive benefits according to law.

#### Conclusion:

Given the short escrow deadline, it is not possible to complete the survey and Phase I environmental review before presenting this request to Finance Committee and the Agency Board. However, as scheduled, staff will have sufficient time to review the ALTA policy and survey and the Phase I environmental report prior to executing the loan

agreement, funding the loan and proceeding to closing. Therefore, staff asks that the Finance Committee recommend that the Agency Board approve the proposed RDA loan, subject to Agency Counsel's approval of issues relating to title and environmental review.

**ATTACHMENTS:** 1. Housing Authority Request Letter  
2. Location Map

**PREPARED BY:** Brian Bosse, Acting Housing and Redevelopment Manager/ SK

**SUBMITTED BY:** Dave Gustafson, Acting Community Development Director

**APPROVED BY:** City Administrator's Office



## HOUSING

AUTHORITY OF THE  
CITY OF SANTA BARBARA808 Laguna Street / Santa Barbara  
California / 93101Tel (805) 965-1071  
Fax (805) 564-7041

March 14, 2008

**HAND DELIVERED**

Mr. David Gustafson, Acting Community Development Director  
Community Development Department  
City of Santa Barbara  
630 Garden St.  
Santa Barbara, CA 93101

RE: REQUEST FOR CITY SUBSIDY FOR THE ACQUISITION OF REAL  
PROPERTY LOCATED AT 512-518 BATH ST.

Dear Dave:

The Housing Authority Commission is scheduled to adopt the enclosed Resolution next week confirming its desire to proceed with the purchase of the above referenced property for the development of affordable housing. In reading the enclosed materials, you will note that our negotiated purchase price is \$4.8 million and is contingent on City Redevelopment Agency financing to cover our acquisition cost. As we have discussed, the development of affordable rental housing for low income persons in our market requires local subsidy of 100% for the land cost as well as some small portion of the construction costs. While we remain hopeful that the bulk of the eventual construction costs can be met through a successful application to the State for Low Income Housing Tax Credits, land costs must be underwritten at a 100%.

In discussing this property to date, your Office, along with Housing and Redevelopment and Planning Staff, have offered general agreement that this relatively large property of 47,485 sq. ft. presents a good land banking and affordable housing/redevelopment opportunity for the community. As you know, the existing improvements consist of four very old, small, dilapidated houses built between 1893 and 1907 and a 10-unit apartment building and related carport circa 1963. The City's Urban Historian, Jake Jacobus, in an email to me of March 5, 2008, determined that the old houses are not of "historic" value and can be demolished. As for the apartment building and carport, they are 45 years old, poorly constructed and encroach upon Mission Creek such that the community would benefit from their removal if we purchased and redeveloped the site as affordable housing.

The subject site is zoned R-3 and R-4 and can be developed as housing per those standards. Further, we have been searching for land purchase opportunities and the price for this property at \$101/SF compares quite favorably with recent sales. Our last large property purchase was the Haagen property on East Cota St. in August of 2006 at \$119/SF. We have shared with your Staff (under separate cover) the December 29, 2007 appraisal by Wayne Holden which we commissioned as part of our investigation of this property. It establishes value at \$4.6 million. The sellers in turn commissioned a review appraisal (copy enclosed) of Mr. Holden's work that sets value at \$5.45 million.

Mr. David Gustafson  
March 14, 2008  
Page 2

Thus, we feel that our negotiated purchase price of \$4.8 million is both reasonable and fair to all parties.

Given the size and location of this property, we are confident that several scenarios for affordable housing development are possible. It compares quite favorably with Casa de Las Fuentes' land in terms of size and, at a minimum, a program of that nature—42 rental units for downtown workers—could occur on this site. However, at this juncture, we do not wish to commit to a particular development scenario; we want development scenarios to "percolate" via discussions with the Housing Authority Commission, Planning Staff, design professionals and the City Council. The key at this juncture is to secure the property through the Housing Authority's purchase (and stewardship) as soon as possible.

Be advised that we are working with the seller to secure a Phase I environmental report on the property. Our review and approval of that report and similar due diligence matters are a condition of our purchase agreement (copy enclosed).

If our funding request could be placed before the City Council/RDA in the next 30 days, it would be greatly appreciated. As always, the Housing Authority Commission and Staff are very open to the City's advice and direction with respect to the type and number of units of affordable housing that might be developed on this site.

Sincerely,

HOUSING AUTHORITY OF THE  
CITY OF SANTA BARBARA



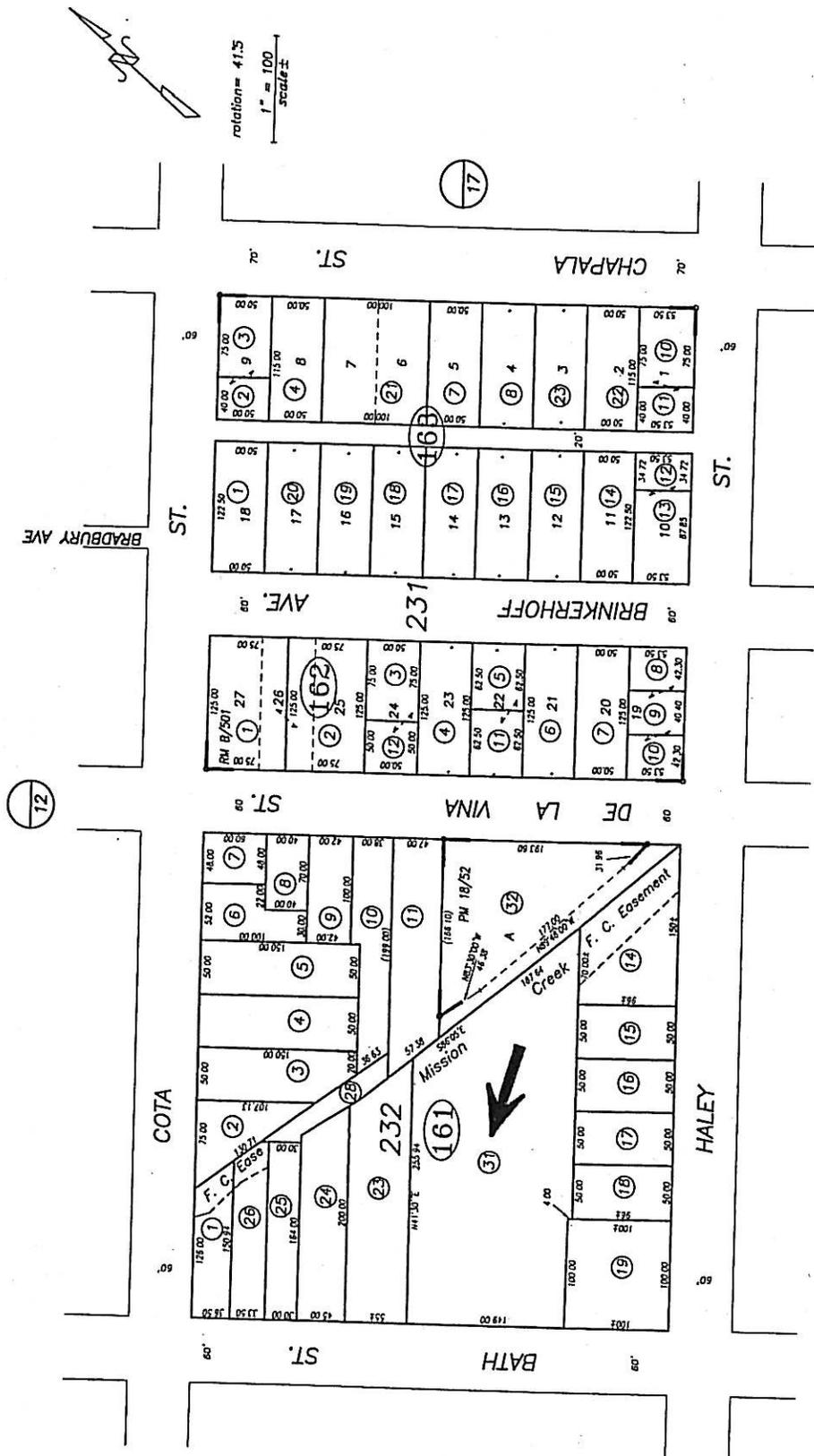
ROBERT G. PEARSON  
Executive Director/CEO

encls.

cc: Housing Authority Commission  
S. Szymanski, Deputy Executive Director  
R. Maccianti, Property & Development Director  
R. Lawrence, Finance Director  
R. Fredericks, Deputy Executive Director  
Mark Maniōh, General Counsel, Price, Postel & Parma

037-16

POR. PUEBLO LANDS



City of Santa Barbara  
 Assessor's Map Bk, 037 -Pg. 16  
 County of Santa Barbara, Calif.

103-09 and 103-22 & 23  
 ASSIGNED PCL # 101-20

05/97

**NOTICE**  
 Assessor's Parcels are for tax assessment purposes only and do not indicate either parcel legality or a valid building site.

R.M. Bk. B , Pg. 501 , Tract Subdivision of block 231

**Lawyers Title Company**  
 This map is to be used only for informational purposes and shall not be construed, in any manner, as a guarantee of the accuracy or sufficiency of the information shown hereon.