



# CITY OF SANTA BARBARA

## FINANCE COMMITTEE AGENDA REPORT

**AGENDA DATE:** January 11, 2011

**TO:** Finance Committee

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

**SUBJECT:** Loan To Peoples' Self-Help Housing Corporation For Acquisition Of 510-520 North Salsipuedes Street and 601 East Haley Street

### RECOMMENDATION:

That the Finance Committee consider and recommend to the Redevelopment Agency Board approval of a loan of \$2,000,000 in Agency Housing Setaside funds to Peoples' Self-Help Housing Corporation for the acquisition of the properties at 510-520 North Salsipuedes Street and 601 East Haley Street for eventual development of low income rental housing.

### DISCUSSION:

Peoples' Self-Help Housing Corporation (PSHHC) has successfully developed and managed four affordable rental projects in Santa Barbara with the financial assistance of the City and Agency, and has recently identified a site to acquire and develop as their fifth project in the City. PSHHC has requested a loan of \$2 million of Redevelopment Agency Housing Setaside funds to cover the purchase price.

#### Property Description

The property consists of three contiguous parcels. One parcel is at the corner of Salsipuedes and Haley Streets and the other two front Salsipuedes Street. The combined area of the lots is 41,099 square feet (0.94 acre). An aerial photo of the parcels is attached. The parcel at Salsipuedes and Haley is currently undeveloped and vacant. The two parcels on Salsipuedes contain substandard structures, three of which are occupied as rental units. PSHHC will provide relocation assistance to the current tenants as required by City, State and federal relocation laws.

PSHHC has opened escrow on this purchase from the seller, Bertha Clayeria Family Trust, subject to important contingencies. One contingency is the Agency's approval of this loan. Another is the completion of a "Phase 2" environmental study that includes ground borings to make sure there are no underground hazardous materials. Escrow is set to close on February 14, 2011.

#### Agency Loan

The sale price for the property is \$2,000,000. This price comes to less than \$49 per square foot. PSHHC seeks Agency financing for the full purchase price. Closing costs for the transaction, as well as the Phase 2 study, would be paid for by PSHHC. The

requested Agency loan would be secured by a deed of trust recorded against the property in first position.

In an appraisal dated December 13, 2010, Hammock, Arnold, Smith and Company established a value for the three parcels of \$2,200,000, which is \$200,000 higher than the purchase price negotiated by PSHHC. Thus, the Agency loan would be fully secured.

Although PSHHC intends to proceed with proposing a project and beginning the development review process, they are too early in the process to propose a specific project at this time. This purchase is considered to be a "land-banking" acquisition, in order to take advantage of a favorable real estate market for purchasers at this time. As with other land-banking acquisitions funded by the Agency, the Agency's loan agreement will set a timeline for the eventual development by PSHHC of an affordable housing project on the site. Within five years of signing the Agency loan agreement, PSHHC must receive City development approvals for an affordable rental project for low-income households, obtain other needed financing (such as low-income housing tax credits and additional City/Agency funding) and begin construction of the project, or the loan will be due and payable, together with accrued interest at 4.5%. Staff recommends a five-year period for beginning of construction due to the planned use of low income housing tax credits, as the tax credit approval process can sometimes take more than two years.

#### Potential Development

PSHHC intends to diligently pursue development of the property with a rental project for very-low and low-income families. They plan to propose a project of about 45 units. Approximately 30% of the units would have three bedrooms, and the remaining units would have one or two bedrooms. Because PSHHC has long recognized the need to provide residents with education, health and social services, the project would also include community space of about 3,000 square feet.

Once the project receives City development approvals, PSHHC will need to obtain additional permanent and construction financing. They intend to apply for low income housing tax credits as well as additional subsidy from the City in the form of federal HOME funds or additional Redevelopment Agency housing setaside funds. If they get approval for a 45-unit project, the additional City financing is estimated at \$3.6 million (for a total of \$125,000 per unit, including this land loan). However, if the development review process results in fewer units, the City's per-unit subsidy would probably need to be higher. Upon approval of additional City financing, it is anticipated that this acquisition loan will be amended to extend its due date to match that of the additional financing.

#### Affordability Covenant

As with all City and Agency-funded affordable housing projects, an affordability control covenant must be executed and recorded to ensure that the property will be used to provide affordable housing to low income persons.

Benefit to the Central City Redevelopment Project Area (CCRP)

While the site is located outside the CCRP, the project will benefit the CCRP in providing needed rental housing nearby that is affordable to low income households. California Redevelopment Law requires that, in order for Agency Housing Setaside funds to be spent outside the CCRP, the City Council and the Redevelopment Agency must adopt a resolution with certain findings and the determination that the project is of benefit to the CCRP.

Sustainability Impact

Peoples' Self-Help has made a commitment to building its project using sustainable principles, so any eventual development will exceed code requirements regarding energy efficiency.

**BUDGET/FINANCIAL INFORMATION AND CONCLUSION:**

Staff asks that the Finance Committee recommend to the Agency Board approval of the requested loan. This land acquisition would be an important step toward adding to the City's inventory of affordable rental housing for families. At a cost of \$2,000,000, 10% below the appraised value, the land is priced well. Any future project will be carefully reviewed by Agency staff and the Agency Board to make certain that it makes sound financial sense.

The Agency has sufficient Housing Setaside funds to make the requested loan, as shown by the following summary (numbers are approximate for simplicity). The Agency Housing Setaside Fund began Fiscal Year 2011 with reserves of \$6.1 million and estimates tax increment revenue during the year totaling \$2.7 million. Thus, the amount of Housing Setaside Funds available is \$8.8 million. From this amount, the Agency has committed \$360,000 to the Housing Authority for the acquisition of 2941 State, \$300,000 to the Housing Authority for adding two units to its property at 233 W. Ortega, and \$925,000 for the purchase of land on East Canon Perdido by Habitat for Humanity for a future project. This leaves a balance of \$7.2 million. Today the Finance Committee is reviewing requests for Agency funding for two housing projects: this one for \$2 million and 2904 State for \$1,150,000. If the Agency Board approves both of these requests, a balance of approximately \$4 million in Agency Housing Setaside funds will be available for future projects.

The attached letter from PSHHC provides additional information about this funding request as well as their excellent track record with the City, the Agency and other Central Coast communities in providing attractive and successful housing projects.

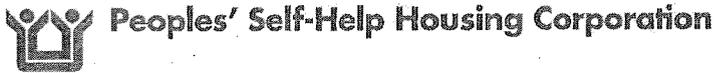
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**ATTACHMENT:** Letter from Peoples' Self-Help Housing

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

**SUBMITTED BY:** Paul Casey, Community Development Director / Assistant  
City Manager

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



December 3, 2010

Steven Faulstich  
Housing Programs Supervisor  
City of Santa Barbara  
630 Garden Street  
Santa Barbara, CA 93101

**RE: Request for Funds to Acquire 510, 520 North Salsipuedes and 601 East Haley  
To Develop Permanent Affordable Rental Housing**

Dear Mr. Faulstich:

This letter is to request a City loan in the amount of \$2,000,000 for the purpose of purchasing a site for land banking. We would use the loan proceeds to purchase properties located at 510, 520 North Salsipuedes and 601 East Haley Street in downtown Santa Barbara. We plan to develop the site into permanent affordable rental housing for lower-income households. PSHHC and the owners of the properties have signed a purchase agreement, and escrow is scheduled to close on or before February 14, 2011, contingent upon receipt of permanent financing from the City of Santa Barbara.

The need for affordable rental housing in Santa Barbara continues to be strongly demanded and under supplied, as demonstrated by high rents, widespread overcrowding, minimal vacancies and high levels of local long distance workforce commuter traffic. In response to this need in the past, with City financing we have acquired and rehabilitated four existing well functioning rental developments in the City: the Victoria Street Bungalows Phase 1 and 2, and the Victoria Hotel, a renovated historical building serving special needs population, and the Milagro de Ladera Apartments, 51 units with community space on Ladera Street. With City financing, we also built Casas las Granadas, the national award winning multi-family property next to the Granada Garage. The acquisition and development of the properties at Salsipuedes & Haley as permanent affordable rental housing would represent Peoples Self Help Housings (PSHHC) fifth partnership with the City of Santa Barbara. While projects have come forward recently in the City to supply Studio and Single Person Room Occupancy sized units, we plan to develop workforce housing for families. 30% of the units would be three bedrooms and the remaining a mix of one and two bedrooms.

**Peoples' Self-Help Housing Corporation**

PSHHC is a private non-profit corporation celebrating its 40th year in providing affordable housing, programs and services to lower-income households. Since 1970, PSHHC has developed over 1100 units of home ownership housing on the Central Coast under the "sweat equity" program, and over 1300 units of affordable rental housing. PSHHC's non-profit affiliate, The Duncan Group, provides property management services for all of the rental properties. We have had an office in the City of Santa Barbara since 1996.

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### Salsipuedes & Haley Street - Property & Project Description

The current site consists of 3 separate contiguous parcels totaling 41,099 square feet (APNs 031-222-018, -019 and -021) currently zoned C-M, with substandard structures that were moved on the site in the 1940's. An aerial site photo is attached; however, please note that 601 E. Haley is now vacant.

Relatively few parcels ideal for affordable housing remain and are available in the City, and this transaction represents a scarce opportunity to "landbank" the property ahead of projected increasing land prices likely to occur in the near future. This property is well-sited with respect to close proximity to residential services, amenities and potential employment, which can translate into less and shorter daily traffic trips made by residents, and higher competitiveness to attract equity investment into the community through the Low Income Housing Tax Credit program.

The current land use is underutilized and blighted, and at this sale price represents a good value for providing more well planned affordable housing, beautifying the neighborhood, creating local jobs (estimated at approximately 187 jobs per Federal calculation method) and increased economic activity through the course of the development and life of the project.

At this very preliminary stage, PSHHC proposes to construct approximately 45 new attractive units as well as approximately 3000 square feet of community space, and would plan to exceed Title 24 energy standards in its design by more than 35%. Currently PSHHC is working toward offering a projected unit mix of 14 units at 3-bedroom, 15 units at 2-bedroom, and 16 units at 1-bedroom (with one of the 2-bedroom units to be dedicated to an on-site full time resident manager), however more study will be taking place to ensure project feasibility, and no design work has been completed to date.

### Services

PSHHC delivers much more than high quality, well-managed affordable housing, since recognizing long ago the importance of also providing our residents with the opportunity to access needed education, health and social services in order to stabilize and improve the quality of their lives.

Its very successful programs include a Youth Education Enhancement Program (YEEP) which offers after-school education programs for K-12th grade students at many of our sites. YEEP focuses on improving student literacy, English, and math skills. The program improves grade point averages, sharpens reading and study skills, promotes high school graduation, builds self-esteem, and fosters parent participation in their child's academic life. In addition, the child's learning experience is enhanced by art, music, science, nutrition, financial education, theater and other activities, as well as workshops with guest-speakers and field trips.

Another critical and highly acclaimed PSHHC on-site service is the Supportive Housing Program (SHP), a clinical case management and social services program, which assists residents with gaining access to community services or provides direct "hands-on" assistance. The program's goal is to ensure that all residents, including those who are transitioning live stable, independent lives. All Peoples' Self-Help Housing rental Housing residents are eligible for SHP services. Access to supportive housing services is free, confidential and voluntary. Tenants are encouraged to utilize SHP whenever needed.

### Financing

December 9, 2010

While this request is for land acquisition costs of \$2,000,000, PSHHC will subsequently need to request of the City/RDA for predevelopment and development funds, preliminarily estimated to be an additional \$3,625,000, or \$125,000 per unit total, including the land cost. Other sources of

financing to be leveraged are projected to be Federal Home Loan Bank's Affordable Housing Program funds and permanent private bank financing, as well as 9% tax credit generated investors' equity.

We request that the initial land banking loan of \$2,000,000 be tied to a 5 year time frame for completing the project.

We propose to build 45 units, but in the event this density is not approved we would lower the number of units. If this were to occur the land and other fixed costs would have to be divided by fewer units which would increase the City subsidy request.

**Affordability and Occupancy**

All 45 units (estimated) of the future residential apartments would be targeted to households earning at or below 60% of Area Median Income (AMI). Proposed affordability is currently being analyzed by PSHHC at primarily targeting very low income earning households: 10% of the units at 30% AMI, 20% of the units at 45% AMI, 45% of the units at 50% AMI, and 25% of the units @ 60% AMI, as a starting goal.

**Long-Term Affordability Controls**

PSHHC intends to maintain the development as permanently affordable rentals. It is our understanding that the City will record a Regulatory Agreement which assures long-term affordability, both in terms of occupancy and rent levels. Additionally, the anticipated use of Low Income Housing Tax Credit program for financing would require a minimum 55-year affordability restriction recorded on title.

**Property Management**

PSHHC intends to utilize The Duncan Group, a 501(c)(3) non-profit affiliate, to provide property management and supportive services to the Development upon close of escrow. The Duncan Group currently manages over 1300 units of affordable rental housing throughout Santa Barbara, Ventura and San Luis Obispo Counties. A resume of The Duncan Group is attached as Exhibit D.

**Relocation requirements**

We will follow all City, State and federal relocation guidelines for the current tenants of the property.

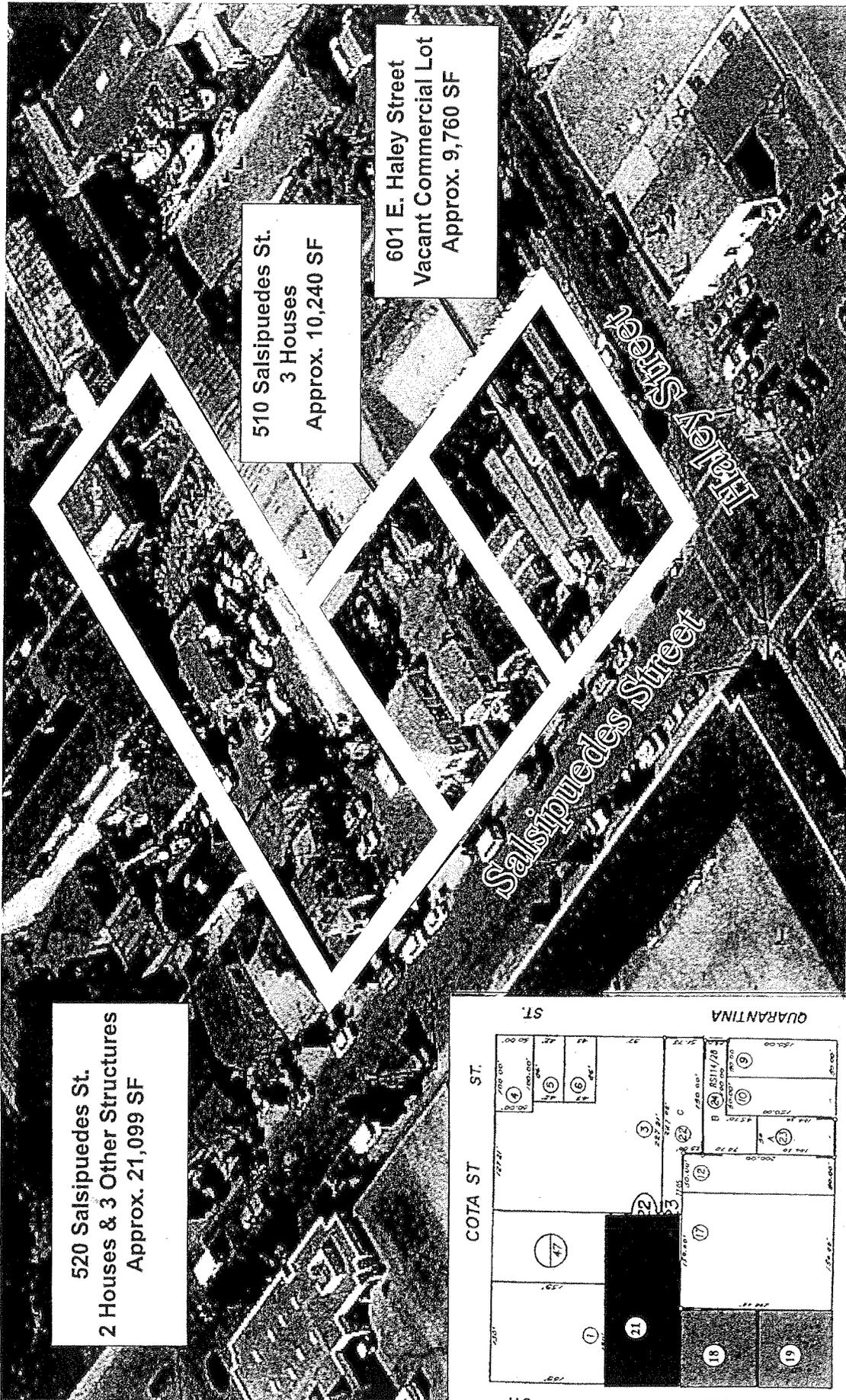
We look forward to working with you on this development. Should you have any questions or require additional information, please do not hesitate to contact us.

Sincerely,



Jeanette Duncan  
Executive Director

ATTACHMENT: Aerial photo of the property.



520 Salsipuedes St.  
2 Houses & 3 Other Structures  
Approx. 21,099 SF

510 Salsipuedes St.  
3 Houses  
Approx. 10,240 SF

601 E. Haley Street  
Vacant Commercial Lot  
Approx. 9,760 SF

