City of Culver City, California

Agenda Item Report

Meeting Date: 08/02/10	Item Number: A-1
REDEVELOPMENT AGENCY BOARD AGENDA ITEM: (1) Approval of an Affordable Housing Agreement with 4043 Irving Place Investors, LLC. to Create Nine Moderate and Three Low Income Housing Units at 4043 Irving Place; (2) Approval and Adoption of the Mitigated Negative Declaration and Mitigation Monitoring Program; and (3) Approval of a Related Budget Amendment.	
Contact Person/Dept.: Todd Tipton, Redevelopment Administrator, Tevis Barnes, Housing Division Manager	Phone Number: (310) 253-5783 and 5782
Fiscal Impact: Yes [X] No []	General Fund: Yes [] No [X]
Public Hearing: [] Action Item: [X]	Attachments: [X]
Commission Action Required: Yes [] No [X]	Date: ________________
Public Notification: (USPS) All individuals who spoke during the 7/26/10 public meeting via email, (E-Mail) Meetings and Agendas – Redevelopment Agency (08/05/10).	
Department Approval: Sol Blumenfeld: 08/04/10	Agency General Counsel Approval: Murray Kane: (08/04/10)
Chief Financial Officer Approval: Jeff Muir (by N. Kimball) (08/04/10)	Executive Director Approval: Martin R. Cole (08/05/10)

RECOMMENDATION:

Staff recommends the Redevelopment Agency Board (Agency Board) approve an Affordable Housing Agreement with 4043 Irving Place Investors, LLC. (Developer) to provide approximately $6 million in funding for the creation of nine moderate and three low income housing units at 4043 Irving Place (Property).

BACKGROUND:

On July 26, 2010, the Agency Board considered this item and continued the discussion until tonight so that residents of the surrounding neighborhood would have an opportunity to meet with the Agency's financial consultant, Keyser Marston Associates ("KMA"), to discuss the funding parameters. A copy of the July 26th Agency Agenda Item Report is attached.

On August 2, 2010, a meeting was conducted in City Hall that was attended by five Downtown Neighborhood Association ("DNA") members, one Gateway Association member, a resident/affordable housing advocate, staff and KMA. During the meeting the DNA presented a series of questions (attached) that generally related to the rental incomes included in the pro forma, developer experience and leveraging of Agency funds among other things. Staff's response to questions posed by the DNA during the meeting is attached. Additionally, subsequent correspondence from the affordable housing advocate is attached for review.

DISCUSSION:

During the meeting KMA provided a summary of their analysis and explained their methodology, which focuses on determining the project Feasibility and Affordability Gaps[1]. In this case, the Feasibility Gap is approximately $3.4 million and the Affordability Gap is approximately $2.6 million. KMA's analysis is attached for review.

The DNA expressed concern that the market rents provided by the Developer were too high for the area. KMA explained that they had examined the Developer's market rent figures and that new, high-end rental units near downtown could generate the necessary rents as evident by rates being achieved in Playa Vista for similar housing product and the lack of new housing in Culver City. Staff utilized Trulia, an onsite real estate search site, to identify properties currently available for rent in Culver City, Palms, Glencoe/Redwood and Playa Vista; staff's findings are depicted in the attached memorandum.

Pursuant to the DNA's request, KMA agreed to recreate their analysis using a market rent that was $1,000 less ($1,835 per month for a one-bedroom unit and $2,516 for a two-bedroom unit) than that identified by the Developer. KMA's analysis indicates that a rental rate reduction of this magnitude would require an additional $900,000 in Agency assistance. Absent additional assistance, the Developer would likely incur a debt service shortfall of approximately $45,000 annually. KMA's recreated analysis is attached for review.

The entity that finances the project will make rent projections as part of their underwriting process. If the financing entity concludes that the Developer's rent projections are unrealistic, the lender will reduce the amount of financing that it will approve for the project. If sufficient funding is not provided, then the Project will not be constructed and the Affordable Housing Agreement will terminate without any assistance being provided.

If the lender accepts the rent projections, and the actual rents are dramatically less than the projections, negative cash flows may be experienced. If this occurs over a protracted period of time, the Developer may increase his equity contribution or find it advantageous to allow the project to be foreclosed upon. If foreclosed upon, the financing entity would take the property back and resell it at a price that was supported by the actual net operating income. However, the new owner would be subject to the deed restrictions on the 12 affordable units, including the management, maintenance and reporting obligations.

The DNA expressed concern that the Developer lacked the experience to manage and maintain the project. Collectively, the Developer has more than 25 years in the real estate industry and owns numerous affordable units. As reported during the July 26 meeting, staff has visited multiple properties owned by the Developer and found them to be well maintained and managed. The Developer further explained that after owning more than 30 real estate projects, none have been subject to foreclosure. Letters supporting the Developer's experience are attached for review.

Some DNA members recommended that the Agency's assistance be leveraged (by obtaining bond financing, tax credits, etc.) in order to secure additional sources of financing that would result in the creation of additional affordable units or units for Very Low Income individuals. Further, the DNA recommended that the Agency consider partnering with an affordable housing developer to create a project comprised entirely of affordable units. The Comprehensive Housing Strategy approved by the Agency provides for smaller, scattered site mixed income projects, which staff believes are generally inconsistent with these types of leveraged projects.

Summary

During the meeting the DNA referred to the Agency's assistance as a "bailout". While it may be true that a Developer would not construct a new rental project, with no possibility to convert to condominiums in the future, in this economic climate, staff believes it worthwhile to provide the proposed assistance in order to create new affordable rental housing opportunities in the downtown area. The creation of new affordable housing will allow the Agency to fulfill its statutory requirement to create affordable housing and allow the City to make some progress in satisfying its Regional Housing Needs Assessment requirements.

Staff believes the Developer has the financial wherewithal and experience to construct and manage this project. Further, Agency General Counsel has indicated the enforcement and security provisions included in the Affordable Housing Agreement will protect the Agency and its affordable units in the event the Developer fails to perform. Agency General Counsel has also indicated that the DNA's concerns related to the ongoing maintenance of the Property are already addressed in Section 4 of the Agreement Containing Covenants, which grants the Agency (for the 55-year term of affordability) property inspection rights upon 72 hours' notice, as well as other rights and remedies to assure proper management and maintenance of the Property.

FISCAL ANALYSIS:

The approximate $6 million in proposed financial assistance equates to $499,000 per affordable unit. Assuming an average unit size of 1,200 square feet, this equates to a per square foot cost of $416. This amount is in an affordable unit cost range that is consistent with what Santa Monica ($460 per square foot) expends on affordable units and what the Agency will likely spend on the Globe Avenue project ($433 per square foot).

The financial assistance will be funded from the Low/Moderate Income Housing Fund, which has an available appropriable balance of approximately $16 million. The available appropriable balance is the amount available after making the $11 million loan to the Agency's Tax Increment Fund to pay the Agency's Fiscal Year 2009/2010 SERAF obligation. Should the Agency Board approve the requested financial assistance, the available appropriable balance would decrease to approximately $10 million, then increase incrementally over the next five years as new tax increment revenues are generated and the SERAF loan is repaid to the Low/Moderate Income Housing Fund.

ATTACHMENTS:

1. July 26, 2010 Agency Agenda Item Report;
2. Responses to questions posed by the DNA during the August 2nd meeting with KMA and staff;
3. KMA's 8/2 financial analysis;
4. KMA's financial analysis examining reduced rents;
5. Memorandum examining comparable rents;
6. Documents identifying Developer experience;
7. Correspondence;
8. Mitigated Negative Declaration and Mitigation Monitoring Program
9. KMA's response to correspondence.

MOTION:

That the Agency Board:

1. Approve and adopt the Mitigated Negative Declaration and Mitigation Monitoring Program for the project, in the form previously adopted by the City Council; and,

2. Approve a Budget Amendment appropriating $6 million from the Low/Moderate Income Housing Fund pursuant to the Affordable Housing Agreement; and,

3. Approve an Affordable Housing Agreement with 4043 Irving Place Investors, LLC. to create nine Moderate and three Low Income affordable housing units at 4043 Irving Place; and,

4. Authorize the Agency General Counsel to review/prepare the necessary documents; and,

5. Authorize the Executive Director to execute such documents on behalf of the Agency.

Notes:

[1] The Feasibility Gap results from the Developer foregoing the potential to convert the units to condominiums during the 55 year period and the Affordability Gap results from the Developer discounting the rents for the 12 affordable units.