Thomas Mack
OH HomeSight Pontedera
April 3, 2014
Version #1

Form revised: February 26, 2014

FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	CBO Analyst/Phone:
Office of Housing (OH)	Tom Mack / 4-0339	Jeanette Blankenship / 5-0087

Legislation Title: AN ORDINANCE relating to the Pontedera condominium project, amending provisions of Ordinance 122099, which authorized the sale by the City for multifamily development of property known as Dearborn-Hiawatha Parcels 2a & 2b, at Hiawatha Place South and South Charles Street in the I-90 Redevelopment Project area, to HomeSight or its designee; authorizing the Director of Housing to cancel without payment or further performance the remaining balances of certain loans to the purchaser and HomeSight and to accept from the purchaser certain subordinate notes from home buyers; authorizing the Director of Housing to release remaining unsold units from income restrictions and long-term affordability covenants; authorizing the Director of Housing to make down-payment assistance loans to any low-income buyers of units in that property, and modifying Housing Funding Policies adopted in Ordinance 124298 for any such loans; and ratifying and confirming prior acts.

Summary of the Legislation:
The Council bill authorizes the Director of the Office of Housing to reduce the percentage of affordable homebuyers from 51% to 42%; authorizes the reduction of required units with a long-term affordability covenant (30 years) from 20 to 12; authorizes additional down payment assistance to the 9 homebuyers with long-term affordable covenants and the transfer of these down payment assistance loans from HomeSight to the Office of Housing; and the forgiveness of the additional financing provided to HomeSight as part of the workout in 2012.

This legislation is necessary to continue sales efforts to low-income homebuyers. Without the modifications made in this legislation, foreclosure is likely, which would lead to a market-rate sale and the potential loss of 8 affordable units.

Background:
By Ordinance 122099, the City authorized sale of property known as Dearborn-Hiawatha Parcel 2a and b to HomeSight for construction of Pontedera Condominium project containing 94 residential condominium units + 8 live/work lofts (102 Total). A minimum of 48 units were set aside as affordable to households earning up to 80% median income. Because the entire building met the requirements of the Multifamily Tax Exemption Program, any household with a qualifying income would receive the tax exemption.

Construction of the Pontedera condos was completed in 2010. The City committed $1.68 million in Housing Levy funds for down payment assistance (matched by the state Housing Trust Fund), to help in total, 48 (including the 20 long-term affordable) low-income first-time homebuyers. Prior to the completion of the development, HomeSight determined that additional down payment assistance was needed to attract low-income buyers to purchase homes with resale restrictions and achieve the long-term affordability goals for the building. OH subsequently provided an additional bridge loan in the amount of $440k to help facilitate the sales of the 9 of the 12 long-term low-income homebuyers.

The Pontedera development was completed at the height of the recession and during a time when condominiums in particular, were not sought by households seeking homeownership opportunities. During the first several months of sales, HomeSight made slow but steady progress, selling a few units each month. However, in the summer of 2010, sales started to slow considerably. By the fall of 2011, total sales were at 19 units out of the 102. HomeSight and its primary construction lender, Wells Fargo subsequently entered into workout with little movement to resolution. With little progress toward agreement, in January 2012, Wells Fargo announced it would soon foreclose on the property and leave HomeSight, the City's investment and the existing owners in jeopardy. In the Spring of 2012, the City arranged a two-day session to negotiate a workout solution on the Pontedera. At the end of this negotiation, it was determined that additional investment from the City was needed to off-set the additional development costs related to holding costs HomeSight incurred while carrying vacant and unsold units for an unanticipated period of time.

The Office of Housing invested $690,000 to pay down a portion of the principal balance of Wells Fargo and LISC construction loans and provided an additional $400,000 in "gap payments" in the event that future condo sales were sold at prices (given the stressed market) lower than the principal payments (Release Prices) required under the new debt structure by Wells and LISC. To date, HomeSight has drawn $50,553 against the "gap payment" funding.

The workout included: A reset of the release prices per unit required by both Wells Fargo and LISC based on the current market appraisal. Wells Fargo forgiving the accrued and unpaid interest ($462,000), reducing the loan's recourse to HomeSight to $1 million and providing a two year loan extension to May 1st, 2014. LISC agreed to reduce their interest rate from 7.25% to 6%. LISC also agreed to forgive 50% of the accrued and unpaid interest if all the remaining units were sold prior to the May 1st, 2014 maturity date. LISC agreed that depending on how sales went, reducing the release prices to the 2011 appraisal value would potentially leave a $1.1 million balance remaining on their loan after all units had been sold. After the terms of the workout were negotiated, the loan terms were extended, and the market began to slowly rebound, HomeSight was able to sell both affordable and market-rate units. In the last 2 years, HomeSight has been able to sell all but 94 of the 102 units at the Pontedera (including the 3 currently under contract.) This is a significant achievement given that just two years ago, all was considered lost. The City's development loan allowed HomeSight the additional time necessary to make as much progress as possible in selling units in the building.

__X__ This legislation does not have any financial implications.

Appropriations:
N/A

Total Regular Positions Created, Modified, or Abrogated through this Legislation, Including FTE Impact:
N/A

Spending/Cash Flow:
N/A

Other Implications:

a) **Does the legislation have indirect financial implications, or long-term implications?**
If this legislation is not enacted, Wells Fargo will likely foreclose on the remaining units losing any possibility of a sale to a low income homebuyer.

b) **What is the financial cost of not implementing the legislation?**
None. Office of Housing has set-aside Housing Levy funds for down payment assistance should HomeSight succeed in selling any of the remaining units to low income homebuyers.

c) **Does this legislation affect any departments besides the originating department?**
No.

d) **What are the possible alternatives to the legislation that could achieve the same or similar objectives?** None.

e) **Is a public hearing required for this legislation?**
No.

f) **Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?**
No.

g) **Does this legislation affect a piece of property?**
Yes.

h) **Other Issues:** None.

List attachments to the fiscal note below:
None.