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January 22, 1997

Redevelopment Agency of the City of Sacramento
Sacramento, California

Honorable Members in Session:

SUBJECT: NOTICE OF FUNDING AVAILABILITY (NOFA)--CENTRAL CITY MARKET-RATE HOUSING DEVELOPMENT

LOCATION AND COUNCIL DISTRICT: Districts 1, 3 and 4

RECOMMENDATION:

Staff recommends approval of the attached resolution which:

- appropriates \$2,000,000 of Merged Downtown tax increment housing set-aside funds for Central City market-rate housing; and
- issues a NOFA for the development of market-rate housing for moderate-income families in the Central City.

CONTACT PERSONS: John Dangberg, Director of Community Development, 440-1357
Beverly Fretz-Brown, Assistant Director of Community Development, 440-1302

FOR MEETING OF: February 4, 1997

SUMMARY

This report provides information on housing in the Central City of Sacramento and recommends appropriating \$2,000,000 of Merged Downtown Redevelopment tax-increment housing set-aside funds for the issuance of a NOFA for market-rate housing in the Central City. The NOFA will be issued in February 1997, and will have a 60-day response period. The Agency Loan Committee and the Sacramento Housing and Redevelopment Commission will review applications selected for funding and submit them to the City Council for approval.

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COMMISSION ACTION

At its meeting of January 22, 1997, the Sacramento Housing and Redevelopment Commission recommended approval of the attached resolution. The votes were as follows:

AYES: Amundson, Castello, Cespedes, Dobbins, Hoag,
Newsome, Simon, Harland

NOES: Diepenbrock, Holloway, Rotz

ABSENT: None

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BACKGROUND

Based upon the analysis of housing within the Central City of Sacramento included as Attachment I, the Agency proposes to augment its current Central City housing initiatives with a NOFA for new and niche market housing product (described below) to respond to the preferences of likely downtown residents.

Within the next year, the Sacramento Housing and Redevelopment Agency will be advancing several new homeownership projects and initiatives within the Central City of Sacramento as a means of strengthening neighborhoods and towards achieving a vibrant central business district. Agency-sponsored ownership projects already in process include the 45-home single family detached Sutter Commons project in the Marshall Park neighborhood, a 10-home townhouse project in Alkali Flat, and 24 detached and attached homes on three sites in the Southside Park neighborhood. (The latter three projects were responses to the Agency's Request For Proposals for Ownership Housing in July 1996.) It is anticipated that these projects will be brought forward to the City Council within the next 90 days.

Furthermore, the United States Department of Housing and Urban Development has indicated that it intends to provide additional grant funding for "Homeownership Zones" in the future. Homeownership Zones are large-scale, new construction projects designed to reclaim distressed areas through increased homeownership. The Homeownership Zone application requirements necessitate that tax increment financing be available and that the sponsoring agency control land

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within the proposed Homeownership Zone. The Agency is evaluating several areas of Sacramento for potential applications. One possibility in the Central City is the State's Capital Park plan.

Through the NOFA authorized by the attached resolution, the Agency hopes to attract new development proposals for an additional 100 to 200 homes in the Central City. In the next five years, the emphasis of Agency housing activities in the Central City will be on:

- maintaining the historic and cultural fabric of Central City housing through rehabilitation of existing structures. This will be accomplished through the Fainted Ladies Program and the Agency's existing owner-occupied and rental rehabilitation loan programs. (Recommended modifications to these programs to make them easier to use and to increase production will be brought to the City Council within the next 90 days);
- supplementing the existing single family housing supply through the development of market-rate single-family ownership housing on infill sites; and
- creating new urban-scale housing through the development of adaptive re-use and other unique, market-rate housing opportunities, such as loft units, residential-over-retail, and live-work space.

It is anticipated that the latter two activities will be accomplished through this NOFA.

With the NOFA and future initiatives, the Agency seeks to meet two housing needs within the Central City:

- the need for new, modern, single family ownership units; and
- the need for urban housing product types designed for urban dwellers.

There is a lack of newer, modern homes in the Central City and a lack of unique, urban scale housing such as loft, live-work, or mixed-use space which is common in other central business districts on the west coast. The goal of the Agency is to encourage the construction of new housing with modern amenities and features to meet the needs of those home buyers who would like to live downtown but who would prefer the comfort and convenience of a new home or detached home, and to meet the needs of those who desire an urban living experience by providing new and unique housing options which offer more urban appeal. Through this effort, housing products would be developed which, to date, have not been significantly introduced in the Sacramento market.

The demographic profile of each of these groups is anticipated to be as follows:

- between the ages of 24 and 45;
- earning between \$25,000 and \$75,000 annually;
- at least some college education;

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- more likely to have no children.
- amenable to condominium living.

Furthermore, it is anticipated that these groups will demand off-street parking, security, a feeling of neighborhood and connection to cafes, parks, shopping, and views. To the extent possible, a coordinated and comprehensive program to market housing projects within the Central City will be employed.

The NOFA is subject to restrictions on the use of tax increment housing set-aside funds. The housing produced must be affordable to moderate income families (those earning 110 percent of median income) and, in the case of tax increment from the merged downtown area, is subject to deed restrictions assuring affordability for 30 years. A draft of the NOFA is included as Attachment II.

FINANCIAL CONSIDERATIONS

This report recommends a budget transfer in the amount of \$896,895 from the Metro Court Project (Downtown Low/Mod CIP), \$231,160 from the Central City Housing Infill Fund, and \$871,945 from the R Street Housing Project (1993 TARBS) to an account to fund projects selected through the NOFA process. The funds are Merged Downtown Housing Set-Aside Funds.

Funding for the Metro Court project was authorized through the 1992 Central City Housing NOFA. The Agency recognizes the importance of residential development on the Metro Court site, yet because of the continuing uncertainties related to mitigation of toxics on the site by the seller, Agency staff is recommending de-funding the project. The project may be resubmitted through this NOFA.

POLICY CONSIDERATIONS

The action recommended in this report is consistent with the Central City Housing Strategy and the Agency's policies regarding housing development assistance in the Central City. No policy changes are recommended.

ENVIRONMENTAL REVIEW

The proposed action does not constitute a project under CEQA per Guidelines Section 15378(b)(3), and the proposed action does not constitute an action subject to NEPA. No federal funds or authority is involved. Individual projects will be reviewed as they are identified, prior to funding approval.

M/WBE REVIEW

M/WBE firms will be included in the distribution list for the NOFA and will be encouraged to submit proposals.

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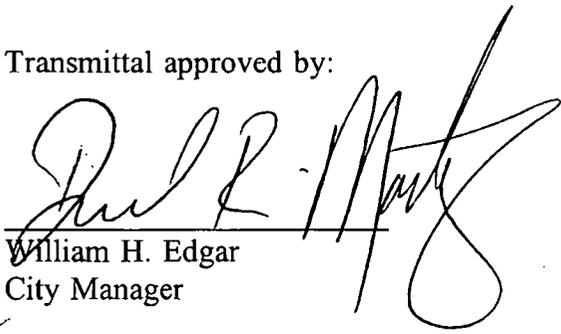
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Respectfully submitted by,



THOMAS V. LEE
Executive Director

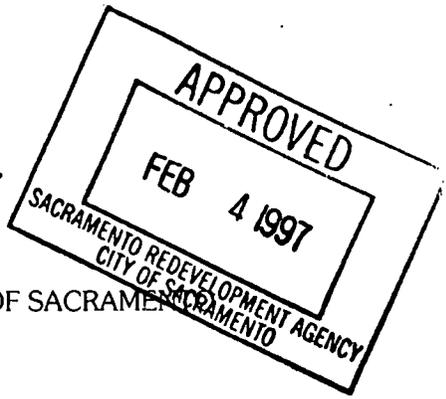
Transmittal approved by:



William H. Edgar
City Manager

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RESOLUTION NO. 91-005



ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF _____

**CENTRAL CITY MARKET RATE HOUSING PROJECT
NOTICE OF FUNDING AVAILABILITY AND RELATED BUDGET MATTERS;
DEFUNDING OF METRO COURT PROJECT**

BE IT RESOLVED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO:

Section 1. The Executive Director is authorized to issue a Notice of Funding Availability (NOFA), attached to this resolution, which calls for development of market-rate housing within the Central City of Sacramento (the area bounded by the Capital City Freeway, the American River, and the Sacramento River), affordable to moderate income households.

Section 2. Sacramento Housing and Redevelopment Commission is authorized to review the proposals evaluated by its Loan Committee and to return with recommendations.

Section 3. The budgeted appropriation for the Metro Court project is defunded.

Section 4. The \$896,895 from the Metro Court project, \$231,160 from the Central City Housing Infill fund, and \$871,945 from the R Street Housing fund is appropriated to provide funding for those projects selected and approved for funding through the NOFA.

Section 5. The Executive Director is authorized to amend the budget to accomplish the purposes of this resolution.

CHAIR

ATTEST:

SECRETARY

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FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

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CITY OF SACRAMENTO
SACRAMENTO REGIONAL MENTAL AGENCY

CENTRAL CITY HOUSING ANALYSIS

Introduction

In general, Central City housing can be characterized as consisting of few owner-occupied homes and mostly older, multi-family residential structures. Following is a summary of selected housing market conditions in the Central City:

| Type | Occupancy | | Total | Built since | Sales since |
|-------------|-----------|--------|--------|-------------|-------------|
| | Owner | Renter | | 1986 | 1992 |
| SF Detached | 1,162 | 688 | 1,850 | 21 | 247 |
| Condo | 408 | 213 | 621 | 33 | 58 |
| 2-4 unit | 391 | 3,674 | 4,065 | 76 | |
| >4 units | 0 | 12,308 | 12,308 | 313 | |
| | 1,961 | 16,883 | 18,844 | 443 | 305 |

Homeownership Rate

A low homeownership rate is often cited as either the cause or the effect of neighborhood decline and deterioration of the quality of life in the Central City. It is generally accepted that a high homeownership rate is an indication of the well-being of a community. According to the County Assessor's records, as of January 1996, there were 18,844 residential units in the Central City, of which 1,961 (10.4 percent) were owner-occupied.

While the Central City ownership rate seems extraordinarily low, two factors should be noted. First, urban core areas typically have lower ownership rates due to fact that those households who choose to live in the urban core tend to be those who rent, (i.e., singles, young-marrieds, and empty nesters). Second, the land use densities in the urban core naturally lead to a low ownership rate. Of the 18,844 total residential units, only 2,471 (13.1 percent) are single family homes--1,850 are detached homes and 621 are attached (condominiums). Of these homes, 63.5 percent are owner-occupied (62.8 percent and 65.7 percent respectively) which is slightly below the national average homeownership rate of 65 percent.

Ignoring the potential for conversions, if all of the existing one- to four-unit structures which could reasonably be assumed to be owner-occupied were, in fact, owner occupied, the maximum ownership rate that could be achieved in the Central City would be 20.6 percent. If a normal ownership rate were assumed among these units (65%, the national average), a 13.4 percent rate could be achieved. Thus, while the homeownership rate is a useful tool, it can be misleading and can lead to unrealistic expectations as to what levels of ownership can actually be attained.

New Residential Construction

Of all the residential structures in the Central City, few would be considered to have been built with modern construction. Over the last 10 years little new construction has occurred. Since 1986, approximately 443 new housing units have been constructed, of which 54 have been single family homes. Of these, 21 have been detached units and 33 have been attached units (25 of which were the Agency-sponsored Southside Park Cohousing project).

Home Sales

Reflective of the limited supply of ownership units, the amount of sales activity has been relatively small. For example, the 79 total Central City sales in 1996 accounts for less than one percent of the more than 9,000 sales of existing homes in the Sacramento area. The average number of days on the market was 70 days which is slightly longer than the Sacramento average.

Since July of 1992, there have been 305 Central City sales recorded by the Sacramento Multiple Listing Service, 58 of which have been condominiums. The trend in prices during this period has followed the declining trend of the Sacramento market. Because of the small amount of data, monthly average Central City prices fluctuate wildly within this period but in general have been approximately at or significantly below the Sacramento median resale home price. Lower prices may be attributed to the amount of rehabilitation necessary due to the age of homes.

Indicative of the age of the homes, 31 of the total sales (13 percent of the single-family detached homes) had been designated as a "fixer" by the sales agent. Six of the 40 single family detached homes currently for sale (15 percent) have been designated as "fixer". We would expect that the majority of single family homes would require some amount of improvement.

High-Density Housing/Condominiums

Given residential land use densities in urban core areas, more multi-family homes and more attached homes or condominiums would be expected in the Central City than in outlying areas. In fact, as shown above, there is an abundance of multi-family housing in the Central City, and 25 percent of single-family homes in the Central City are condominiums. Due to the lack of available land within the Central City and if densities suited for a more active downtown are to be obtained, future development in the Central City must consist of condominiums and higher density housing.

Regarding condominiums, general market surveys of home buyers indicate a strong preference for detached units which is evident in the value differential between detached units and attached units (approximately 30 percent in the Sacramento market). These buyers also have indicated a willingness to commute longer distances in order to own a detached home as opposed to an attached home. Additionally, a strong condominium market necessitates that values of single-family detached homes be high. The weakness of the Sacramento condominium market can be attributed to the low values of single family detached homes.

Yet those who desire to live downtown are amenable to condominium living, and therefore, the homes which will be developed in the near future, will not be designed for the traditional or typical home buyer, but for that smaller segment of the market that desires to live downtown and is willing to accept the realities of downtown living. It is this segment of the market which has established high values for the successful condominium projects located at 3rd and P, 22nd and I, 5th and T, and 22nd and L streets. However, a weakness of the Central City condominium projects is that 186 of the total of 621 condominium units in the Central City (30 percent) are units which are subject to a 59-year land lease with the Capitol Area Development Authority, and therefore, do not provide the full benefits of fee simple homeownership.

Marketing Considerations

Previous market research of persons who desire downtown living indicate the following demographic profile:

- Between the ages of 24 and 45;
- Earning between \$25,000 and \$75,000 annually;
- At least some college education;

- More likely to have no children.
- Amenable to condominium living.

The amenities most important to these residents are off-street parking, security, a feeling of neighborhood and connection to cafes, parks, shopping, and views.

The Central City sales data above indicate low levels of sales activity. The low level can be attributed to several factors including the quality and quantity of homes and buyer perceptions of the area. Market research indicates that there are two ways that new-home buyers use to look at new homes. The first is by driving by, and the second is through newspaper advertising. Builders in areas which have several new subdivisions benefit from the "traffic" of new home buyers. The economies of larger subdivisions also allow for a larger marketing budget to pay for newspaper advertisements.

The Central City historically has not benefitted from either of these methods of promotion. There has been little new construction to generate traffic, and what little new construction there is has not been of sufficient size to warrant newspaper advertising. However, drive-by traffic can be generated by other downtown attractions and events. Additionally, smaller new projects may benefit from joint advertising thereby reducing marketing costs.

NOTICE OF FUNDING AVAILABILITY

CENTRAL CITY MARKET-RATE HOUSING

February 10, 1997

The Redevelopment Agency of the City of Sacramento (Agency) is requesting proposals for the development of market-rate housing within the Central City of Sacramento under the Agency's guidelines for Ownership Housing Development Assistance.

A total of \$2,000,000 of Merged Downtown Redevelopment Area Tax Increment funds are available to assist in the development of housing projects which must be affordable to households earning below 110 percent of area median income. The project types being solicited are

1. Single-family ownership housing;
2. Unique urban-scale, market rate housing—mixed use, live-work, loft, adaptive re-use or other types of unique urban housing, which may be ownership or rental property.

In order to be accepted as complete, each proposal must contain the completed Agency application with all attachments including letters of interest from proposed financing sources prior to the filing deadline.

Agency funding shall be used to supplement construction financing from conventional sources, grants or loans from other sources, and owner/developer equity. Applicants are expected to make an equity contribution and to obtain maximum conventional debt financing, as well as to aggressively seek out funding from other private and public sources. Proposals will be subject to the Agency's Housing Development Assistance Program Guidelines. The Guidelines and the Agency Application for Funding are attached.

ALL PROPOSALS MUST BE RECEIVED NO LATER THAN 5:00 P.M., WEDNESDAY, APRIL 30, 1997, IN THE OFFICE OF THE AGENCY CLERK, 630 I STREET, 3RD FLOOR, SACRAMENTO, CA 95814.

For more information contact Al Esquivel, Housing Development and Preservation Division, SHRA, 488 I Street, (916) 440-1351.

A. PROPOSAL SELECTION PROCESS.

1. All proposals shall be reviewed by Agency staff for completeness and responsiveness to the basic requirements of this request, the Housing Development Assistance Guidelines, and the rules and regulations of the funding source (Downtown Tax Increment Funds).
2. Projects will be evaluated and rated in accordance with the evaluation criteria below.
3. Qualified projects will be submitted to the Agency Loan Approval Committee for review and selection. The Loan Committee will select those which best meet the objectives of this NOFA and which will maximize the use of available funds.
4. The Agency shall apply industry- and Agency-standard underwriting criteria in assessing the need for Agency financing. The Agency reserves the right to recommend alternative financing structures, to make modifications to development proposals, and to reject at its sole discretion applications which it deems incomplete or non-responsive.
5. Projects selected by the Loan Approval Committee for funding shall be forwarded to the City Council for final approval.

B. EVALUATION CRITERIA. Applications for Agency funding shall be evaluated against the following criteria:

1. Experience and financial strength of the sponsoring individual or organization.
2. Experience of the development team members in planning, financing, construction, and marketing ownership housing.
3. Design quality of the project and compatibility with the neighborhood.
4. Project amenities.
5. Realistic and reasonable development budget including land acquisition, pre-development expenses, construction costs, overhead, and developer fee.
6. Strength of other financial commitments.
7. Amount and type of Agency financing required.
8. Financial feasibility.
9. Locational factors including the integration with the surrounding neighborhood and the proximity to amenities and services.

- 10. Specific program funding goals and criteria.
- 11. Development timetable.
- 12. Developer commitment to the project as evidenced by cash invested, required rate of return, development fees and commission.

C. APPLICATION REQUIREMENTS. The following items must be submitted for each proposal:

- 1. Completed application for funding.
- 2. Narrative description of the project including a project overview, description of the financing plan, and description of the marketing plan.
- 3. Organizational status document for the developer and owner (if different): Articles of incorporation, IRS 501 (C)(3) Determination Letter, By-Laws, Partnership Agreement or other relevant material regarding organization status.
- 4. Most recent fiscal year audit or financial statement (including Balance Sheet and Income and Expense Statement)
- 5. Disclosure of any prior defaults, foreclosures, or bankruptcies on the part of any member of the development team or any entity in which a team member has had and interest. Team members who have not been involved in defaults, foreclosures or bankruptcies must provide a statement that certifies no involvement in such actions.
- 6. Statement of business or familial relationship between owner and members of the development team, including lenders.
- 7. Developer Resume and/or statement of developer's housing development experience with examples of comparable projects.
- 8. Site plans including preliminary drawings showing building layout and location of outdoor amenities.
- 9. Building plans including typical unit elevations, floor plans with dimensions for each type of unit and construction type.
- 10. Detailed cost estimate corresponding to the data provided in the application.
- 11. Detailed cash flow statement corresponding to the data provided in the application.

If an application is selected for funding by the Loan Approval Committee, additional documents will need to be submitted.



Fact Sheet

P.O. BOX 1834, SACRAMENTO, CA 95812-1834

HOUSING DEVELOPMENT ASSISTANCE PROGRAM GUIDELINES

General Information

- Program Description:** The Development Assistance Program is a program which provides funds for construction and rehabilitation of market-rate homes in Agency-designated target areas.
- Program Goals:** The goal of the Development Assistance program is to promote neighborhood revitalization in Agency-designated target areas and to establish stability in these areas through market-rate housing.
- Form of Assistance:** A promissory note in favor of the Agency.
- Calculation of Assistance:** Agency assistance will consist of providing financing necessary in order to induce conventional lending sources to provide construction loans in targeted areas.
- Interest Rate:** Will vary based upon project requirements.
- Term:** Will vary based upon project requirements.
- Amortization:** Will vary based upon project requirements.
- Use of Funds:** Funds may be used for acquisition and/or construction costs.
- Developer Contribution:** Developer must provide a minimum equity contribution equal to 10 percent of the appraised value.
- Other Terms:**
- Loans will be secured by a deed of trust on the property.
 - Agency will subordinate its financing only to construction financing.
 - Loans will be governed by an Owner Participation Agreement.
 - Developer must maximize its use of funds provided by the first construction lender, and funding of Agency financing is contingent upon project receiving enforceable commitments from other lenders and equity sources.
 - Funding of Agency financing is contingent upon the project having all necessary entitlements.
 - For acquisition financing, Agency financing may not exceed 70% of the loan to value of the property.
 - Loans are subject to affordability requirements as evidenced by a 30-year regulatory agreement.

ELIGIBILITY

- Developer/Applicant: For profit and non-profit developers meeting Agency underwriting criteria.
- Property: Property must be located in the Central City.
- Underwriting Guidelines:
- Applications shall be subject to standard Agency underwriting criteria and analysis.
 - All applications for funding shall be subject to the approval of the Agency Loan Committee, the Sacramento Housing and Redevelopment Commission and the City Council.