



## COMMUNITY DEVELOPMENT DEPARTMENT HOUSING DIVISION

**DATE:** February 22, 2013

**TO:** Housing and Human Services Commission

**FROM:** Suzanne Isé, Housing Officer

**RE:** **Preliminary Commission Review of Habitat Request for Housing Funds for Proposed Jackson Street Home Buyer Project**

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### **BACKGROUND**

Habitat for Humanity East Bay/Silicon Valley (Habitat) has been seeking a site in Sunnyvale for an affordable/self-help homeownership project for many years. Securing a site in the City has proven to be very challenging for the agency, as non-profits are often out-bid by market-rate buyers when attempting to purchase local properties. Habitat for Humanity has nearly completed a 4-home project in Cupertino near Highway 85, on surplus city property, and has completed similar projects in various other areas of the county. Last year, the City confirmed that three city-owned homes on Jackson Street, adjacent to Murphy Park, were surplus property and could be sold, as explained below.

The City purchased three homes on Jackson Street adjacent to Murphy Park between 1989 and 1991 with the intention of expanding the park. However, these homes were not adjacent to each other, and the City has been unable to acquire the remaining homes along this block during the past twenty-two years. For that reason, in 2009, as part of the Parks of the Future study (RTC 09-183), Council directed staff to sell these homes as soon as home values recovered from the effects of the 2008-2010 recession. The home values began to recover in 2012.

Two of the homes have been vacant for some time, and the third is occupied by a household renting from the City (managed by the City's Real Property Manager in Public Works Department). Habitat Homeownership Counselors have been working with that tenant to determine whether the household might qualify to buy one of the homes, otherwise she would be provided adequate relocation assistance to obtain comparable housing elsewhere in the City. Staff anticipates the results of that determination will be available in several weeks.

### **DISCUSSION**

In 2011, Habitat for Humanity contacted Housing staff to ask if the City had any surplus properties that might be appropriate for a Habitat project. Staff reported that the homes on Jackson Street were on the City's list of potential surplus properties, based on Council direction in 2009. Habitat expressed interest in acquiring and rehabilitating these homes for resale through Habitat's homeownership program. In August 2012, during the hearing on RTC 12-199, Council agreed that home values had recovered

adequately, and that the Jackson Street homes should be sold as soon as possible, and directed staff to begin negotiating with Habitat for Humanity regarding their interest in acquiring these homes. Staff has been exploring various acquisition options with Habitat since that time, and commissioned appraisals of the homes in December 2012.

Habitat recently submitted a revised proposal (attached) which includes proposed acquisition funding from the City's Housing Fund in the amount of approximately \$211,000, and a conditional commitment of a range of \$100,000 to \$150,000 in First Time Home Buyer loans to the three home buyers that would eventually buy the rehabilitated homes. These figures may change slightly as the project details evolve.

This proposal regarding the Jackson Street Homes is on the Tentative Council Meeting Agenda Calendar (TCMAC) for Council consideration at the March 19<sup>th</sup> Council Meeting. According to City policy, only Council has the authority to approve a sale or lease of City property valued at over \$75,000. In the interim, staff seeks a preliminary funding recommendation from the Commission regarding the proposed use of Housing funds to assist the project, subject to Council approval of the property sale to Habitat, and successful conclusion of property negotiations with Habitat.

The requested City funds would come from the City's Housing Mitigation Fund (HMF) or the Below Market Rate In-Lieu Fee Sub-Fund. Some of the details regarding the precise timing and form of the property transfer and various conditions of approval are yet to be worked out, but will be further refined prior to the Council hearing on this proposal on March 19<sup>th</sup>, and may be further modified by Council at that meeting. Therefore the recommended action is for a general recommendation solely on the question of providing City Housing funds in approximately the amounts requested, if the project is approved by Council. The proceeds of the sale of the city-owned homes will be used to fund park improvements at a park site in Sunnyvale, consistent with earlier Council direction.

**Funding Request:**

Project Subsidy:	\$211,000
First Time Home Buyer Loan Funds:	\$100,000 to \$150,000 (maximum of \$50,000 per home buyer)
Proposed Match Ratio:	Approximately 82% of Project Cost
<b>Total Project Cost</b>	<b>\$1.815 Million</b>

(Acquisition and Rehabilitation of three single-family homes)

**Total Sales Proceeds from Home Buyers:           \$1.313 Million**

**Net Sunnyvale Subsidy Per Home (Average)       \$70,000 - \$85,000 (Estimate)**

**Recommended Action:**

Consider and approve a preliminary recommendation to Council to provide a conditional commitment of approximately \$361,000 (pending final cost estimates) in City Housing funds to assist the project, subject to Council approval of the proposed project.

Attachment: Letter of Interest from Habitat



February 7, 2013

**VIA U.S. MAIL AND ELECTRONIC MAIL**

Ms. Suzanne Ise  
Housing Officer – City of Sunnyvale  
Community Development Department Housing Division  
456 W. Olive Ave.  
PO Box 3707  
Sunnyvale, CA 94088-3707

**RE: Revised Letter of Interest – Jackson Street Renovations**

Dear Suzanne,

Habitat for Humanity East Bay/Silicon Valley is pleased to express its continued interest in creating affordable housing opportunities from the three existing homes owned by the City of Sunnyvale at 239, 263, and 279 Jackson Street. Habitat originally expressed interest in these homes on July 2, 2012 and has since been working with City staff to refine how the renovation and sale of these homes could be structured to meet our mutual objectives. Habitat's Board of Directors approved our funding contribution to this project in July 2012 and we are ready to move forward following City Council approval. The following is a brief revised proposal describing how Habitat would renovate the existing homes, qualify low-income families, and sell the homes as affordable units.

Habitat has been acquiring and renovating homes with NSP1, NSP2, CDBG, donations and other funds in various Bay Area communities and are very interested in applying our skills to the homes that are owned by the City on Jackson Street. Following City Council's August 2012 approval to explore Habitat's original proposal, Habitat met with City Staff several times, inspected the homes with our in-house construction staff and reached out to other funding sources to refine our scope of work and budget for the homes. Habitat's proposes to renovate the homes and sell them to buyers earning between 60% and 80% of AMI, at prices calculated to keep their total housing costs under 35% of their income. Habitat would include resale restrictions for the new buyers in a form mutually acceptable to the City and Habitat, at a length determined by the City.

Habitat has complete preliminary inspections of all three homes on Jackson Street. Formal due diligence inspections such as pest, sewer, lead, asbestos, and fireplace inspections would occur after reaching a written agreement with the City. Based on our initial walk-throughs, our scope of work would likely include kitchen and bathroom upgrades, roof replacement, sewer lateral replacement, new HVAC, addressing dry rot and pest issues, plumbing and electrical upgrades/replacement, abatement of lead and asbestos, use of finishes that ensure high indoor air quality, and other water and energy efficiency measures. We work very hard to ensure our buyers are set up for long term homeownership success by renovating our homes with durable materials, addressing any systems issues in the homes, and making sure the homes are well insulated and water tight. Based on our initial inspections, we have budgeted

it starts with **HOME** starts with you

approximately \$105,500 per home in improvements on average. This number would be refined after we review all inspection reports on the homes. Renovations could be under way within several months of signing an agreement with the City.

Habitat proposes to act as general contractor/developer of the three homes while the City maintains ownership during the renovation process. This will help save many thousands of dollars on total development costs as Habitat will be able to finance the renovation with its own fundraising efforts instead of taking out a construction loan with large interest payments. It will also save money in title and escrow fees and property taxes. Habitat is qualified to do this work under a general contractor's license and also has in-house staff who identify prospective homebuyers. We hold orientations and workshops as well as provide credit counseling for future homebuyers whose credit needs improvement. In finding homebuyers, we would work with the City and neighborhood groups.

In our current proposal, Habitat would contribute \$300,000 (\$100,000 per home) in fundraising towards the development of these three homes. Affordable Housing Program financing would also be applied for from the Federal Home Loan Bank. The Housing Trust of Santa Clara County has also provided a soft commitment of providing downpayment assistance funds in the amount of \$150,000 towards the total program (\$50,000 per home). Habitat requests approximately \$316,000 (\$105,333 per home) from the City of Sunnyvale to be provided from City funds or required fees from market rate developers to support affordable housing within the City. A portion of this amount would be a downpayment assistance loan that would get paid back to the City or transferred to a future owner if the homes were to sell. This current City contribution is significantly less than shown in our initial proposal. Lastly, financing would include an affordable, fixed rate mortgage obtained by Habitat for the buyer from a third party lender. Please see the attached summary sources and uses for the three homes. Note that the purchase prices reflect the values shown in recent appraisals obtained by the City.

Habitat's renovations engage the community in a number of ways by having most of the renovation work completed by community volunteers and by requiring that all homeowners contribute 250 hours of sweat-equity on their home. Many of our regular volunteers have expressed excitement at being able to work on a development in Sunnyvale and our outreach and fundraising efforts are poised to start as soon as possible after approval.

Habitat is well qualified to partner with the City of Sunnyvale in turning the Jackson Street homes into sustainable, affordable housing. Please feel free to contact me at 510.251.6304 x 363 or [dstimpson@habitatebsv.org](mailto:dstimpson@habitatebsv.org) (or Alyssa Thunberg at x361 or [athunberg@habitatebsv.org](mailto:athunberg@habitatebsv.org)) if you have any questions regarding this proposal. We look forward to working with you to renovate these homes.

Respectfully,



Douglas Stimpson  
Vice President, Real Estate Development  
Habitat for Humanity East Bay/Silicon Valley

Sources and Uses			
Habitat for Humanity East Bay/Silicon Valley -- Jackson Street Renovations			
		239 Jackson Street	
		1/29/2013	
<b>Permanent Financing</b>			
City of Sunnyvale (Affordable Housing/In-Lieu Fees)	\$64,079		
City of Sunnyvale (Down Payment Assistance Loan)	\$36,000		
Habitat Contribution	\$100,000		
AHP Funding (if not awarded will increase Sunnyvale contribution)	\$15,000		
Housing Trust of Santa Clara County DPA	\$50,000		
Anticipated Mortgage Proceeds (3-4 p fam - 35% Inc @ 70% AMI w/ 4% int)	\$346,000		
<b>Total Permanent Financing</b>		\$611,079	
<b>Uses of Funds:</b>			
<b>Site Acquisition</b>			
Purchase Price (Funds to Sunnyvale Parks & Rec)	\$450,000		
Appraisal	\$700		
Closing Costs	\$0		
County Transfer Tax (\$1.1 per \$1000)	\$0		
<b>Total Acquisition</b>		\$450,700	
<b>Construction</b>			
Total Site Work + Unit Construction	\$97,475		
Hard Cost Contingency (15%)	\$13,894		
Site Super	\$8,000		
Total Rehab Manager	\$4,000		
<b>Total Construction</b>		\$123,369	
<b>Fees</b>			
Design Consultants (Donated Services)	\$0		
Relocation Fees	\$0		
Soft Cost Contingency	\$2,175		
Habitat line of credit interest (4% - 9 months)	\$3,750		
Property Taxes	\$0		
Liability & Builder's Risk Insurance	\$500		
<b>Total Fees</b>		\$6,425	
<b>Property Sale</b>			
Closing Costs	\$225		
Home Warranty	\$360		
<b>Total Property Sale</b>		\$585	
<b>Administrative Costs</b>			
Developer Fee - Administrative Costs (Acct, Audit, CM, PM, vol mgmt)	\$21,500		
Developer Fee - Fundraising	\$2,500		
Developer Fee - Homeowner Relations	\$6,000		
<b>Total Administrative Costs</b>		\$30,000	
<b>Total Development Costs</b>	\$611,079	\$611,079	
<b>Total Sources</b>	\$611,079	\$611,079	
<b>Net Project Inflow / (Outflow)</b>	\$0	\$0	

263 Jackson Street	
1/29/2013	
\$95,261	
\$36,000	
\$100,000	
\$15,000	
\$50,000	
\$346,000	
	\$642,261
\$440,000	
\$700	
\$0	
\$0	
	\$440,700
\$98,675	
\$14,051	
\$8,000	
\$4,000	
	\$124,726
\$0	
\$37,000	
\$5,000	
\$3,750	
\$0	
\$500	
	\$46,250
\$225	
\$360	
	\$585
\$21,500	
\$2,500	
\$6,000	
	\$30,000
\$642,261	\$642,261
\$642,261	\$642,261
\$0	\$0

279 Jackson Street	
1/29/2013	
\$51,472	
\$33,000	
\$100,000	
\$15,000	
\$50,000	
\$312,000	
	\$561,472
\$420,000	
\$700	
\$0	
\$0	
	\$420,700
\$80,752	
\$11,685	
\$8,000	
\$4,000	
	\$104,437
\$0	
\$0	
\$1,500	
\$3,750	
\$0	
\$500	
	\$5,750
\$225	
\$360	
	\$585
\$21,500	
\$2,500	
\$6,000	
	\$30,000
\$561,472	\$561,472
\$561,472	\$561,472
\$0	\$0

Program Budget	
1/29/2013	
\$210,812	
\$105,000	
\$300,000	
\$45,000	
\$150,000	
\$1,004,000	
	\$1,814,812
\$1,310,000	
\$2,100	
\$0	
\$0	
	\$1,312,100
\$276,902	
\$39,630	
\$24,000	
\$12,000	
	\$352,532
\$0	
\$37,000	
\$8,675	
\$11,250	
\$0	
\$1,500	
	\$58,425
\$675	
\$1,080	
	\$1,755
\$64,500	
\$7,500	
\$18,000	
	\$90,000
\$1,814,812	\$1,814,812
\$1,814,812	\$1,814,812
\$0	\$0