Daly City Housing Development Finance Agency

AGENDA

Regular Meeting

Council Chambers – 333 90th Street

Monday, June 11, 2018 – 7:00 PM

For those wishing to address the Agency Board on any item on the Agenda or under Public Appearances/Oral Communications, please complete a Speaker Card located at the entrance to the Council Chambers and submit to a Staff Member as early in the meeting as possible.

Persons with disabilities who require auxiliary aids or services in attending or participating in this meeting should call the office of the City Clerk at 991-8078 as soon as possible.

Call to Order

Roll Call

Approval of Minutes

May 14, 2018

Resolutions

1. Sand Hill Property Foundation Request for Housing Trust Funds for Acquisition and Rehabilitation of 115-131 E. Moltke Street Apartments

Public Appearance – Oral Communications

Note: Speakers are limited to two minutes, unless modified by the Chair. The Board cannot take action on any matter raised under this item.

Adjournment
Daly City Housing Development Finance Agency
Meeting Minutes
May 14, 2018

The meeting was called to order by Chairperson Manalo at 11:01 P.M.

ROLL CALL: Commissioners Present:

Juslyn Manalo, Chairperson
Ray Buenaventura, Vice Chairperson
Judith Christensen
Glenn Sylvester

Commissioners Absent:
Michael Guingona

Staff Present:
Patricia Martel, Executive Secretary/Director
Rose Zimmerman, General Counsel
K. Annette Hipona, Assistant Secretary

MINUTES:

Special Meeting of March 12, 2018

It was moved by Vice Chairperson Buenaventura, seconded by Commissioner Sylvester and carried to approve the Special Meeting minutes of March 12, 2018.

RESOLUTION:

Adoption of Biennial Operating Budget for Fiscal Years 2019 and 2020

It was moved by Vice Chairperson Buenaventura, seconded by Commissioner Sylvester and carried by unanimous roll call vote to adopt the following resolution:

HFA-45, Adopting Biennial Operating Budget for Fiscal Years 2019 and 2020

ADJOURNMENT:

It was moved by Commissioner Sylvester, seconded by Vice Chairperson Buenaventura, and carried to adjourn the meeting of the Daly City Housing Development Finance Agency at 11:05 P.M.

________________________
Assistant Secretary

Approved this _______ 11th _______ day
of ___________ June _______ 2018.

________________________
Chairperson
Subject: Sand Hill Property Foundation Request for Housing Trust Funds for Acquisition and Rehabilitation of 115-131 E. Moltke Street Apartments

Recommended Action

Appropriate up to $2.9 million from the Housing Trust Fund to Sand Hill Property Foundation (SHP Foundation) for acquisition and rehabilitation of 16 units located at 115-131 E. Moltke Street, authorize execution of a Conditional Loan Agreement with SHP Foundation, and enter into a contract to transfer 260 Abbot to SHP Foundation contingent upon successful negotiation of transfer, loan and deed restriction terms. Authorize the Executive Director or her designee to execute the applicable conditional loan agreement as necessary subject to approval of form and substance by the Agency Counsel.

Background

Over the last two years, rising rents and growing demand for housing have resulted in a critical shortage of housing affordable to households of all income levels. In particular, lower income rental households are negatively affected by these conditions. Staff estimates that over 1,000 households have been displaced due to a shrinking supply of housing affordable to households earning less than 60 percent of the Area Median Income for San Mateo County (Approximately $70,000 per year for a household of three persons).

Pursuant to the priorities set in the draft Housing Trust Fund Policy and Procedures Manual, the City’s Housing Element, and the City’s Five-Year HUD Consolidated Plan, staff has devoted significant effort to identifying opportunities to develop and preserve affordable rental housing in Daly City. Over the last two years, and in consultation with real estate professionals, staff has been unable to identify any multifamily rental properties with four or more units available for sale.

In February of this year, HIP Housing contacted the Agency about the opportunity to purchase 16 apartment units located at 115 through 131 E. Moltke. Although the Affordable Housing Committee gave a preliminary recommendation to offer a conditional commitment of funds for this acquisition, HIP ultimately decided not to move ahead with the project, citing inordinate risk and lack of organizational capacity.

In March, SHP Foundation contacted the City regarding their interest in obtaining Housing Trust Funds to subsidize their acquisition of the E. Moltke Properties.

SHP Foundation is a 501(c)(3) non-profit organization founded by the principles of Sand Hill Property Company for the purpose of serving lower income households. Sand Hill Property Company is a real estate investment and development company based in Palo Alto with experience in the development and management of shopping centers, mixed-use communities,
office complexes, and hotels. Over the past three decades, Sand Hill Property Company has developed more than 40 projects encompassing 14 million square feet of building area throughout the Peninsula and Silicon Valley.

Utilizing the real estate expertise of Sand Hill Property Company, SHP Foundation has acquired five multi-family residential properties with 79 units to serve lower income households facing housing insecurity. These properties are managed by experienced non-profit housing property management organizations, including Abode Services, HIP Housing, and Palo Alto Housing Corporation. In addition, SHP Foundation will acquire and hold multifamily properties when they become available until a non-profit organization can arrange for financing and take possession.

SHP Foundation closed their purchase of the E. Moltke properties on April 9. They are committed to rehabilitation and operation of the E. Moltke units at rents that will be affordable to households with incomes at or below 60 percent of the area median.

Real estate sales that close with short escrow periods are an unfortunate characteristic of the current extremely competitive real estate market. Properties suitable for affordable housing development or preservation are rarely advertised and generally are sold with little opportunity for buyer due diligence. SHP Foundation’s willingness to assume risk and quickly advance their own resources in order to preserve the E. Moltke properties represents the type of partnership and commitment that can help Daly City achieve desired affordable housing outcomes in a challenging real estate market.

SHP Foundation has submitted a request for funding from Daly City to subsidize their acquisition of the E. Moltke properties. The City’s commitment to provide “first in” funding will provide SHP Foundation with a confidence level to proceed with property rehabilitation and negotiation of other funding sources.

In addition to consideration of Housing Trust Funds for the E. Moltke acquisition, staff recommends that the Agency consider transfer of 260 Abbot, a five-unit apartment building located immediately adjacent to the E. Moltke properties to SHP Foundation. This transfer would bring the total project size to 21 units, a more efficient property management configuration and enhance the developer’s ability secure additional subsidy from other sources.

Staff has reviewed financial data submitted by SHP Foundation and enlisted the firm of Devine & Gong, a consulting firm with expertise in the acquisition, rehabilitation, and operation of affordable housing projects, to assist with evaluation of the funding request. Based on an initial review, use of Daly City Housing Trust Funds to subsidize the acquisition appears to be consistent with the priorities and policies identified in the draft Housing Trust Fund Policy and Procedures Manual.
Discussion

On May 7, 2018, staff met with the Affordable Housing Committee comprised of Mayor Juslyn Manalo and Councilmember Glenn Sylvester. The Committee considered current market conditions, the scale of the affordability crisis in Daly City and the amount being requested by SHP Foundation relative to other recent affordable housing projects. Based on these considerations, provision of up to $2.9 million to SHP Foundation for the subject acquisition would be a responsible use of the Housing Trust Fund. Given the preference for further due diligence review of the project, the Committee discussed offering Daly City Housing Trust Funds in the form of a conditional loan with a 12-month term. This would allow staff and the developer to determine building rehabilitation needs, current household incomes, and the availability of other financing resources prior to executing final loan documents with mutually agreeable loan and affordability requirement terms.

The Committee directed staff to structure the conditional loan commitment with defined milestones that the developer must meet in order to preserve their funding commitment and progress towards final loan documents. These milestones include, but are not limited to:

- Documentation of the reasonability of the property acquisition price, as evidenced by an appraisal
- Completion of a Phase I Environmental Review
- A Physical Needs assessment of the properties carried out by a qualified third party with no relation to HHDC
- Data on the existing tenants, including household sizes and income levels
- Preparation of final pro forma financial data including a source and uses statement, a detailed rehabilitation budget and a 10-year operating statement reflecting anticipated expenses and revenues
- Determination of the optimal affordable rent structure and deed restrictions
- Securing of additional funding sources

Fiscal Impact

Provision of up to $2.9 million in Daly City Housing Trust Fund resources will have no General Fund impact. Commitment of these funds to SHP Foundation will leave approximately $100,000 for other Trust Fund priorities. Staff estimates that additional deposits to the Trust Fund based on currently entitled projects will total approximately $1.6 million over the next two years.

Recommendation

Given the critical need for rental housing affordable to lower income households and the extreme scarcity of acquisition opportunities, providing up to $2.9 million to SHP Foundation for the purchase and operation of apartment units located at 115-131 E. Moltke is a rare opportunity to
preserve and improve affordable housing in Daly City and will prevent the likely displacement of 16 existing renter households. Based on an initial review of SHP Foundation’s application, the proposed acquisition meets the criteria for Daly City Housing Trust Fund investment described in the draft Housing Trust Fund Policy and Procedures Manual.

Staff recommends appropriation of $2.9 million from the Housing Trust Fund for the purpose of acquisition and rehabilitation of the properties located at 115-131 E. Moltke. These funds will be offered in the form of a conditional loan agreement. Final loan terms and affordability requirements will be reflected in a permanent loan and affordable housing agreements between the Housing Development Finance Agency and SHP Foundation. Staff further recommends transfer of 260 Abbot for the purpose of affordable housing at such time as final terms have been identified for the E. Moltke loan. These permanent agreements will be presented for consideration by the Agency Board within the next 12 months.

Respectfully submitted,

Betsy ZoBell
Housing and Community Development Supervisor

Tatum Mothershead
Economic & Community Development Director