

Memo

To: CDBG Committee
From: Julie Spears, Grants Administrator
Date: June 25, 2013
Re: Waive Loan-to-Value Limit for CWD 2013 SW Rental Acquisition & Rehab

Common Wealth Development (CWD) has an accepted offer to purchase 8 units of rental housing on the City's Southwest side for \$480,000. CWD plans to use approximately \$463,050 in previously authorized HOME Rental Development (\$413,050 from 2012 and 2013) and Neighborhood Equity funds (\$50,000 from 2013) as well as leverage a first mortgage of \$290,000 and some of their own equity to complete this project. The total development cost is approximately \$767,000, with the City's investment at 60%.

After completing a moderate level of rehabilitation, these units will provide safe, decent and affordable rental housing for low-income households as part of a targeted revitalization effort in an area of priority for the City. The rehabilitation plan addresses significant deferred maintenance which upon completion only modestly increases the estimated value of the property (e.g., \$200,000 in rehab only improves the market value by an estimated \$100,000).

CWD's post-rehabilitation appraisal provides a market value of \$530,000 (sales comparison approach). The appraiser found no comparable sales; only listings. These properties have been listed for almost a year. Distressed sales in this volatile market have also impacted appraised values.

With a total of \$691,093 in loans, the secured loan-to-value ratio for this project would be 130%, therefore exceeding the 115% limit in the 2013-2014 CDD Program Goals and Objectives. The City's loan of \$401,093 will be in second position. While staff recognizes that this is a higher risk than the CDBG Office typically assumes, this risk is greatly minimized by the following factors:

- Common Wealth Development has a strong record of performance and responsibly using public funds to increase the stock of affordable housing for low-income people while revitalizing and stabilizing distressed neighborhoods;
- CWD has worked extensively on the Southwest side over the past year, including hiring a Housing Community Organizer in 2012, which increases the likely success of the project;
- Property values are likely to increase if the planned Southwest side projects and revitalization efforts are successful;
- CWD is in a unique position to provide much needed quality property management practices and community development expertise to this challenged set of properties and neighborhood; and
- The project would not likely be undertaken but for the City's commitment of funds, resulting in a lost opportunity to advance neighborhood stabilization efforts while adding affordable rental housing.

Recommended Action:

Staff recommends that the CDBG Committee approve a waiver to the 115% loan-to-value limit in the 2013-2014 CDD Program Goals and Objectives under which this funding was originally authorized and allow a loan-to-value ratio of up to 130%.