

TO: HONORABLE CITY COUNCIL

ATTN: POLICY AND SERVICES COMMITTEE

FROM: CITY MANAGER **DEPARTMENT: PLANNING AND
COMMUNITY ENVIRONMENT**

DATE: SEPTEMBER 9, 2008 **CMR: 355:08**

**SUBJECT: RECOMMENDATION TO CITY COUNCIL REGARDING ALTERNATIVES
FOR AN AREA MEDIAN INCOME-BASED RESALE PRICE FORMULA
FOR THE BELOW MARKET RATE OWNERSHIP PROGRAM**

RECOMMENDATION

Staff recommends that the Policy and Services Committee review and discuss the two alternatives for a resale price formula for appreciation of BMR ownership units and recommend to the City Council a resale price formula based on 70 percent of the percentage change of the area median income with an overall total resale price limit.

BACKGROUND

At its meeting of July 7, 2008, Council referred the selection of a future BMR resale price formula to the Policy and Services Committee for further discussion and analysis of potential problems that could occur with a formula which results in the resale prices of older BMR units being relatively close to the prices of newly constructed BMR units. Council indicated support for a resale price formula based on 80 percent of the change in the Santa Clara County Area Median Income (AMI) in order to: (1) provide greater appreciation for BMR owners and (2) maintain the BMR units within the moderate income affordability price range; however, this formula could result in resale prices that are close to or even exceed prices for new BMR units especially if the seller is entitled to additional credits to the resale price for capital improvements and / or special condominium assessments. As a result, the Council was concerned that older resale units may become difficult to resell when their prices approach that of new units.

DISCUSSION

Staff has identified a modified AMI-based resale price formula as an alternative to the original consultant proposal. Staff is recommending limiting the appreciation rate to 70 percent of the percentage change in the AMI rather than the 80 percent originally proposed in order to increase the difference in resale unit prices compared to prices of new units. The 70 percent formula would

provide a somewhat greater cushion than the 80 percent formula to absorb the impact of special assessments, capital improvements, or the lower appeal of older units relative to new ones, while still maintaining resale units in the moderate income range of affordability. The table below illustrates the lower appreciation resulting from the 70 percent formula using a typical BMR unit example and the last 20 years history of the change in the AMI.

For further security that all BMR units will be retained in the moderate income affordable housing stock, staff proposes that the formula resale price, including any special assessments and credits for capital improvements, not be allowed to exceed the then current new unit sales price for a comparable category unit. While this provision would prevent resale prices from exceeding moderate income affordability levels due to assessments or high levels of improvements, it could possibly discourage major improvements or limit reimbursement for owners subject to a major assessment.

As directed by Council in 2002, the staff established a deferred payment special assessment loan program for very low income BMR owners and set up the BMR Emergency Fund which funds these loans and other costs related to the preservation of BMR units. While it is likely that some older BMR units will be subject to major special assessments in the future, the current BMR value of most units in the inventory is low enough to absorb such assessments and still remain within the moderate income resale price range. Staff will continue to monitor the BMR housing stock on an ongoing basis and should there be issues in particular complexes with large assessments, then additional housing fund resources may need to be allocated to deal with unusual problems. Another implementation measure from the BMR Study is for staff to develop a loan program for owners to renovate their units. In addition, the new BMR deed restrictions will include clearer and simpler procedures to encourage owners to carry out beneficial capital improvements.

Several of the attachments previously provided with the July 7th staff report have been revised to illustrate the 70% of AMI alternative formula and the historical average annual change with comparison to the 80 percent of AMI. The table below provides a brief comparison of the two formulas.

Appreciation Formulas: 20-Year Comparison of Alternative			
	80 % of AMI	70% of AMI	Current Price for Similar New BMR
Average Annual % Change ¹	3.7%	3.3%	---
20-Year Increase	116%	101%	---
Resale Price of Sample 3-Bedroom Unit ²	\$248,200	\$231,500	\$272,700
Difference from New Unit	(\$24,500)	(\$41,200)	---
<u>Notes:</u>			
1- Time period of 1987 – 2007			
2 – Unit originally sold when new 20 years ago for \$115,000; no special assessment or capital improvements are added in this example			

Staff believes that the 70 percent of AMI formula would provide a reasonable level of protection

from resale units being priced too close to new units and, therefore, recommends this alternative. If the Council still has concerns regarding the viability of the AMI-based formula for resale units, the full CPI formula as supported by the PTC could be revisited. A minimum floor on the resale price, as recommended for the AMI-based formula, could also be added to ensure resale units prices do not drop into the very low income range.

RESOURCE IMPACT

Limiting the appreciation of BMR unit resale prices should preserve the City’s housing funds by reducing the likelihood of the City having to buy down the resale price of units in order to keep them within a price range that is attractive to prospective qualified BMR buyers. Limiting the appreciation however, could discourage good maintenance, repairs and needed capital improvements and can also have a resource impact on City housing funds, if the City should have to provide loans or grants to bring units into an acceptable condition.

POLICY IMPLICATIONS

Selection of a resale price formula targeted for moderate income levels reinforces the objectives for the BMR ownership program intended to provide affordable housing for moderate income level households. Although keeping resale units within the moderate income affordability level may result in some older units that are more difficult to sell, there is no method that will work in all economic scenarios and achieve all of the City’s housing program objectives.

ENVIRONMENTAL REVIEW

The administration of the BMR housing program is categorically exempt under Section 15326 of the California Environmental Quality Act (CEQA).

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ATTACHMENTS

A. Resale Price Formula for BMR Unit Based Upon 70 Percent of the Change in the Area Median Income (AMI)

- B. BMR Resale Price Calculation With 70% of AMI Formula (Sample Calculation)
- C. BMR Study: Appreciation Indexes: 20 year Comparison of Full CPI, Full AMI, 80 % of AMI, and 70% of AMI
- D. City Managers Report 298:08 of July 7, 2008 (City Council only)

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