CITY OF PALO ALTO
BELOW MARKET RATE HOUSING PROGRAM
ECONOMIC/POLICY ANALYSES AND RECOMMENDATIONS
Prepared by Keyser Marston Associates, Inc.
and Anderson Associates

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1. INTRODUCTION

The following report contains Analyses to Support the City of Palo Alto's Below Market Rate (BMR) Housing Program Update, prepared for the City of Palo Alto. The report has been prepared pursuant to a contract, executed in August 2004, between the City and Keyser Marston Associates, Inc. (KMA) prime contractor, and Anderson & Associates (AA), subcontractor. The City had solicited the services of housing and economic consultants with experience in inclusionary housing programs, affordable housing program administration, real estate finance and market economics to provide independent and objective analyses and recommendations on specific questions and issues to serve as input to the City's BMR Program Update.

History and Context

The City founded the BMR Program in 1974, making the Program one of the first of its kind in the United States. As of 2005, the Program had produced 169 owner occupied units and 101 rental units. The program as applied to new development projects is administered through the Department of Planning and Community Environment. Sales and resales of BMR units are administered by the Palo Alto Housing Corporation (PAHC), a private non-profit corporation under contract to the City.

The BMR Program has generated approximately 7.5 BMR or inclusionary units per year, on average, since initiation of the Program. In addition, units have been produced through use of in-lieu fee revenues. This rate of production has not been sufficient to meet the City's need for affordable housing. To increase production, the updated Housing Element of 1999-2006 increased the percentage requirements and made other modifications to the Program.

The City, with PAHC, has been administering the BMR Program and its inventory of units for roughly 30 years now. Over this period, considerable experience and expertise has been developed in areas of marketing, selling, maintaining and reselling BMR units, as well as enforcement of deed restrictions. Over the course of time, a variety of conditions have evolved and challenging administrative issues have arisen, which the City and PAHC have met with creative approaches and measures.

While updating the City's Housing Element in 2002, the City determined that a comprehensive evaluation of the BMR program would be in order. The City prepared a list of specific issues and questions for which it would seek outside independent evaluation, research, and the experience of other jurisdictions that have faced similar issues. An expected outcome of the BMR evaluation is an update to all aspects of the program, including revisions as appropriate, ranging from administration and monitoring, to deed restrictions and resale provisions, to implementation procedures as applied to new residential projects.

Scope of Services

The City of Palo Alto prepared a scope of services, identifying a range of specific questions and issues that the KMA/AA team was asked to address and explore. The organization of this report generally follows the City's Scope of Services.

The major tasks are as indicated below. Also indicated is the authorship of the section, since some of the tasks were prepared by Keyser Marston Associates, some by Anderson & Associates and some jointly.

BMR Inventory, Equity, and Homeowner's Survey:	KMA and City Staff
BMR Unit Value and Maintenance:	KMA and AA
BMR Deed Restrictions:	AA & KMA
BMR Purchase Program Implementation:	AA
BMR Policy Analysis:	KMA
Summary of Consultant Recommendations	KMA and AA

Underlying Goals and Assumptions for the Analyses

The analyses and recommendations prepared by KMA and AA address the City's following objectives:

- Strengthen the City's BMR Program as contained in Policy H-36 of the Housing Element of the City's Comprehensive Plan;

- Improve program effectiveness in meeting the affordable housing needs of the community and the workability of the overall program.

- Update the structure of the basic deed restriction used by the BMR program to reflect the best practices being employed by other communities and improve the enforcement of program requirements;

- Modify program elements to ensure that the BMR units are adequately maintained and to encourage homeowners to undertake capital improvements to their homes;

- Update implementation practices to reflect the best practices employed by other communities to enhance communication with BMR homeowners and lessen the administrative burden whenever possible.

Work Program Guidance Process

Throughout the work program Keyser Marston Associates and Anderson & Associates personnel met periodically with several members of City staff and with PAHC. A number of joint work sessions were held to guide the consultant work program.

To perform certain tasks that required more work within City offices and in Palo Alto, the City hired a research intern to administer surveys, summarize survey responses, compile an inventory database, research City files for deed restrictions and other documents, and undertake other assignments as part of the overall BMR update work program. Consultants assisted with guidance in defining the needs and parameters of the tasks performed by the research intern.

Regular monthly telephone conferences were held throughout most of the work program to coordinate among the City staff participants, the research intern, PAHC representatives, and other affected parties to discuss issues, findings and schedule of performance.

Drafts of report sections were periodically submitted to the City. The City reviewed the drafts and made requests for modifications. As a result, some of the material is the result of several iterations of review and coordination among the parties.

Timing of Research and Report Publication

The timeline for the preparation of the materials in this report has approximated two years. Many tasks were interrelated and required the completion of surveys and other tasks undertaken by the research intern. Two surveys were conducted by the City with the assistance of the research intern, one of all owners of individual BMR units, and one of Homeowners Associations. As is typical of such surveys, responses from participants entailed extended time frames and resulted in a long study timeline overall for the completion of all tasks.

- Much of the research and analysis, particularly the market research, was conducted early in the work program, or the winter of 2004 and early months of 2005. The significant time period between the start and completion of this study has had two impacts on this report:

- Market conditions and sales prices of market rate units contained in the report reflect values that have increased (by mid 2006) significantly since the research was conducted. All findings and recommendations have been reviewed in light of trends since the research was conducted. KMA believes that none of the findings and recommendations contained in this report are undermined or invalidated by the use of the early material. Most findings and recommendations regarding matters of valuation

have been rendered more conservative (or lower) than would be the case using data at this time, late spring 2006, when the complete report document is being assembled.

- Some implementation practices of Palo Alto's BMR Program have changed since the study was initiated. Some of the consultant team's early recommendations (which are included in this report) have already been incorporated into the City's program. Also, some program aspects that are evaluated in this report may not be fully current.

Additional Limiting Conditions

- The analyses in this report have been prepared using the best data available. Secondary sources such as the U. S. Census, and surveys by commercial research firms such as the Meyers Group were used. While KMA and A&A believe these sources of data are sufficiently accurate for the purposes of the analyses, KMA and AA cannot guarantee their complete accuracy. As a result, KMA assumes no liability for conclusions drawn from these sources.

- As with all economic analyses, the findings and recommendations for the future of the program assume no major prolonged downturns in the local, regional or national economy.

- The issues, options, and recommendations contained in this report have not benefited from input from the City's legal counsel. While the recommendations contained in the report have either been successfully implemented in other cities or are believed to be legally permissible, given the preexisting context of Palo Alto's BMR Program, KMA does not make any representations regarding the legal implications of revising the BMR Program.

- Keyser Marston Associates and Anderson & Associates both have extensive experience with affordable and inclusionary housing. This experience is drawn from consulting experience for many jurisdictions, and, in the case of Anderson Associates, experience as a public sector staff person in the administration of affordable housing programs. In addition to drawing on past experience, for this assignment, the Consultants assembled the ordinances from over 20 jurisdictions, jurisdictions selected for their long track record, their active and more aggressive programs and their known creative approaches to certain issues. Staff persons from other jurisdictions were also contacted for input on specific topics.

2. BMR INVENTORY, EQUITY AND HOMEOWNER SURVEY

2.1 BMR Inventory

A description of the BMR Inventory is to be prepared by City and/or Palo Alto Housing Corporation Staff. When complete, this description will be provided as Appendix A of this report.

Currently there are 169 owner-occupied units in Palo Alto that are regulated by the City's Below Market Rate (BMR) Program. A complete inventory of these units is found in Appendix A of this study. Sales and resales of the BMR inventory are currently administered by the Palo Alto Housing Corporation (PAHC). Preference for ownership of BMR units is given to applicants who live or work in Palo Alto. In addition to the ownership units, the BMR program also has generated 155 rental units.

2.2 BMR Program Equity

This section addresses the issue of the general magnitude of equity that has accrued within the BMR program. For purposes of this analysis, "equity" is defined as the difference between each unit's estimated fair market value (assuming that the unit is not encumbered with affordability restrictions) and the purchase price paid by the homeowner. The estimate of equity is, however, a theoretical figure that cannot be realized because the resale price (value) of each home is limited by the requirements of the BMR program. Given the terms of the BMR program, the accrued equity is shared between the City of Palo Alto and the homeowners, with the majority of the equity accruing to the City.

A precise estimate of both the amount of equity that has accrued within the Program and the distribution of the equity between the homeowners and the City would require the preparation of a formal appraisal of each home and that the specific terms of each deed restriction be applied to the implicit sales transaction to determine the distribution of equity. Such an endeavor is beyond the scope and intent of this assignment.

2.2.1 Summary of Approach

To estimate an order of magnitude theoretical fair market value of each of the 169 BMR ownership units, KMA first collected and analyzed recent sales of unrestricted market rate units within the BMR complexes. The values of the BMR units within those complexes have then been estimated based on the values of the market rate units within the same complex. In recognition of the general experience that market rate units have typically been upgraded to a greater extent than BMR units, for purposes of this analysis it has been assumed that the market rate value of BMR units generally approximates 80% of the value of unrestricted market rate units.

We were not able to identify comparable duplex market rate sales for 12 of the BMR units. The market values of these 12 homes have been estimated based on the estimated value of similar sized units within the entire BMR database.

2.2.2 Recorded Prices of BMR Units

Chart 2.2. - A, presents a summary of the database for the 169 BMR homes. As shown, the most recent recorded sales prices for the homes average approximately $85,000. The average recorded price by bedroom count and age of home is as follows:

Chart 2.2-A. Recorded BMR Sales Prices[1]

Type of BMR Unit	**Average Most Recent Recorded BMR Unit Sales Price (2005)**
All BMR Units	**$85,000**
One Bedroom	$59,000
Two Bedrooms	$89,000
Three Bedrooms	$106,000
Built in 1970s	$62,000
Built in 1980s	$86,000
Built in 1990s	$106,000
Built in 2000s	$197,000

2.2.3 Prices of Market Rate Units in BMR Complexes

Appendix A Table summarizes the sales since 2002 of unrestricted market rate units within BMR complexes. Through the published data source of “DataQuik” we identified a total of 327 market rate unit sales within 33 of the 38 of the BMR complexes. As you will note, given the voluntary nature of the sales database, the data are not necessarily complete for all of the transactions. As shown, the market rate units sold are estimated to have an average value as of 2005 of approximately $623,000. The values of the market rate units within the BMR complexes can be summarized as follows:

[1] The “most recent recorded price” includes some homes at their original purchase price and some homes that have resold at their most recent resale price.

Chart 2.2-B. Sales Prices of Market Rate Units within BMR Complexes

Type of Market Rate Unit	Avg. Recorded Price	Est. Avg. 2005 Value of Market Rate Units	Est. Avg. 2005 Value/SF
All Market Rate Units in Complexes with BMR units	$555,000	$623,000	$502
One Bedroom	$378,000	$443,000	$534
Two Bedrooms	$515,000	$590,000	$503
Three Bedrooms	$677,000	$739,000	$467
Built in 1970s	$474,000	$505,000	$459
Built in 1980s	$535,000	$619,000	$506
Built in 1990s	$648,000	$739,000	$531
Built in 2000s	$795,000	$914,000	$550

Average annual home price escalations for the market rate units in the BMR complexes approximated 4% between 2002 and 2003, and 9% between 2003 and 2005. Given that Palo Alto's BMR program through 2002 required all new developments with more than 10 units to include BMR units it is believed that the attributes of these 33 complexes are representative of the last 30-years of multi-family ownership development in Palo Alto. There are no relevant market rate transactions for Ashby Court, Bautista Court, Foothill Green, Ortega Court, and Talisman Drive because these are duplex units within single family detached subdivisions.

2.2.4 Estimated Equity of BMR Program

While the values of the market rate homes in the BMR complexes are the best available indicator of the unrestricted market value of the BMR units, they are believed to be somewhat higher than the value of the BMR units. This is due to a number of considerations, including that BMR units are often located at the least desirable location within a complex and that the appliances and finishes within the market rate units will typically be upgraded more frequently. In recognition of these considerations, the values of the market rate units have been discounted by 20% to establish "order of magnitude" estimates of the market value of the BMR units. The fair market value estimates for individual homes are considered "order of magnitude" indicators of value rather than appraisal estimates. The value estimates are based exclusively on the prices of other homes within the complex or within the BMR database and not on the individual attributes of each home.

Based on this approach, it has been estimated that the average market value of the BMR homes is approximately $472,000. Given that the average most recent sales price is $85,000, it is estimated that the amount of "equity" in each home is approximately $386,000.

As shown on Chart 2.2-C and Appendix Table 3, it is estimated that the amount of aggregate equity that has accumulated within the entire BMR inventory is approximately $65 million.

The equity estimates are summarized in the following chart:

Chart 2.2-C. Order of Magnitude Estimates of Accrued Theoretical Equity in BMR Program

	Avg. Most Recent BMR Price	Est. Avg. Fair Market Value of BMR Units	Est. Avg. Equity per Unit
All Units, Per Unit	$85,000	$472,000	$387,000
All Units, Total Program	$14,400,000	$79,800,000	$65,400,000
One Bedroom	$59,000	$342,000	$284,000
Two Bedrooms	$89,000	$464,000	$375,000
Three Bedrooms	$106,000	$617,000	$511,000
Units Built in 1970s	$62,000	$422,000	$361,000
Units Built in 1980s	$86,000	$458,000	$373,000
Units Built in 1990s	$106,000	$582,000	$476,000
Units Built in 2000s	$197,000	$683,000	$487,000

2.3 Homeowner Survey

The Homeowner Survey is a key part of a comprehensive review of the Below Market Rate (BMR) Program. The survey was designed by the Department of Planning and Community Environment to provide insight into how well the BMR Program currently meets the needs of moderate-income families and ways in which the Program may be revised and updated. The City also hired a consulting firm (Keyser Marston Associates, Inc. working in conjunction with Anderson and Associates) to review economic and legal aspects of the program and offer recommendations for improving administrative efficiency and program effectiveness.

The survey was conducted between December 2004 and February 2005. At that time, there were 169 BMR ownership units. In total, 124 surveys were received, for a response rate of 73%. The detailed analysis of the survey is available in the document “Survey of Homeowners: Analysis of Responses.” See Appendix C.

3. BMR UNIT VALUE AND MAINTENANCE

3.1 Initial Sales Prices of New BMR Units

This section addresses the BMR program's current policy for establishing the initial prices of newly constructed BMR homes, including the following:

- A summary and evaluation of the City's current policy,
- A comparison of the approach taken by the BMR programs of other communities, and
- Recommended revisions to the City's formula for establishing initial prices.

3.1.1 Summary of the BMR Program's Current Initial Pricing Policy

It is our understanding that the current program requires from two-thirds to four-fifths of units to be priced at levels affordable to households earning between 80 and 100 percent of the Santa Clara County median income, taking into consideration the following estimated housing expenses: mortgage payment, taxes, insurance, an allowance for capital replacement, maintenance and association dues. The remaining BMR units must be available to households earning between 100 to 120 percent of the County's median income. The percentage requirements are contained in Policy H-36 of the Housing Element of the City's Comprehensive Plan, and are a function of the overall size of the project, as follows:

Chart 3.1-A. City of Palo Alto BMR Inclusionary Requirements

	Projects with less than 5 units	**Projects with 5 or more units and site is less than 5 acres**	**Projects with 5 or more units and site is greater than or equal to 5 acres**	**Projects that cause the loss of existing rental housing**	**Density Bonus Units (Housing Element Program H-38)**
BMR Requirement	None required	15% of total units	20% of total units	25% of total units	25% of all density bonus units
Percentage of units priced from 80% of 100% of County Median Income	NA	Two thirds of 15% or 10% of total units in project	Three fourths of 20% or 15% of total units in project	Four fifths of 25% or 20% of total units in project	All must be affordable to Low to Moderate Income Households
Percentage of units priced from 100% to 120% of County Median Income	NA	One third of 15% or 5% of total units in project	One fourth of 20% or 5% of total units in project	One fifth of 25% or 5% of total units in project	See above

Source: Palo Alto Comprehensive Plan Chapter 4: Housing Element, Adopted December 2002.

To implement this policy, the City annually establishes underwriting assumptions and publishes price guidelines for newly constructed units. The current guidelines are presented in the following chart. Generally, developers are required to sell new BMR units at the "BMR Unit Price Guideline", which represents an average value between the minimum and maximum price in the income range. However, there is latitude in the BMR program for developers to negotiate pricing with City staff on a project-by-project basis.

Chart 3.1-B. Palo Alto BMR Ownership Program – 2004 New Construction Maximum Price Guidelines

	80% to 100% of AMI	100% to 120% AMI
Studios	$190,200	$243,650
1-bedroom units	$209,300	$266,650
2-bedroom units	$262,750	$331,600
3-bedroom units	$308,700	$387,450
4-bedroom units	$354,500	$443,250

Source: Planning Division Memorandum, March 24, 2004, "Updated Price Guidelines for New BMR Units"

The City's policy as stated in the BMR Program H-36 of the Housing Element also provides a cost-based minimum floor price for BMR units based on the actual cost to the developer of constructing the BMR unit. It is the City's policy that "in all cases the sales price should be sufficient to cover the estimated cost to the developer of constructing the BMR unit, including financing, but excluding land, marketing, off-site improvements, and profit." To implement this policy, the City has established a list of cost elements to be excluded in the cost-based calculation. Please refer to "City of Palo Alto Below Market Rate (BMR) Program Summary of City Policy Regarding Cost-Based Pricing of BMR Units Revised November 2004" for a list of the disallowed cost elements, which is attached as Appendix D to this report.

3.1.2 Evaluation of "Cost-Based" Approach to Establishing a Minimum BMR Price

KMA has reviewed the provisions of nineteen other BMR programs. As shown in Table 3-1 (pages 3-10 to 3-13) it appears that the majority of programs base pricing exclusively on the application of underwriting criteria to income limits. The exceptions appear to be: Mountain View, Walnut Creek, Davis, and Irvine. While Sunnyvale's program has historically considered construction costs, it is our understanding that the program was revised in 2003 to base pricing strictly on income. Consistent with this survey, it is our opinion that the current practice for BMR programs is to annually establish permitted BMR prices based solely on the application of underwriting criteria to selected income limits. The cost of constructing the BMR unit is not typically a factor in establishing pricing. Palo Alto City staff also report that historically very few developers have requested that development costs be a factor for establishing the prices of BMR units. As an additional consideration, the pricing formula permitted under California Redevelopment Law (CRL) for redevelopment agency inclusionary programs is also based exclusively on the application of underwriting criteria to income limits.

To evaluate the implication of the “cost-based minimum price”, KMA prepared financial feasibility analyses of two prototypical developments. The first prototype is a townhome development with a density of 17 units per acre. The second prototype is a stacked higher density condominium project with 64 units per acre. Both prototypes include BMR units in accordance with Palo Alto’s standard program requirements, as described in Program H-36 of the City’s Housing Element. The townhome prototype reflects a 15% inclusionary obligation, while the condominium project reflects a 15% inclusionary obligation, with an additional BMR unit resulting from the density bonus program. The program assumptions, estimated development costs and supported profit margin, and residual land value for the two prototypes are presented in Appendix Tables 4-A through 5-C. While the prototypes are based on development proposals submitted to the City, the cost and revenue estimates contained in the appendix tables do not necessarily reflect the economics of any specific projects..

The purpose of analyzing the financial feasibility of the prototypes is two-fold: (1) to compare the BMR program’s pricing guidelines to the cost of constructing the BMR units; and (2) to assess the impact of the BMR program requirements on the overall feasibility of the development. The findings of the analysis are summarized in Chart 3.1-C.

Chart 3.1-C. Summary of Financial Feasibility of Developing Prototypical Developments with BMR Units (based on yr, 2004 pro forma information)

	Townhome Prototype, with a 15% BMR requirement	High Density Condominium Prototype, with a 15% BMR requirement and Density Bonus
Total Units	76	60
Affordability Mix		
Lower Moderate	8	7
Higher Moderate	4	3
Market Rate	64	50
Total Development Costs, Ex. Land Per unit	$312,000	$487,000
Est. Per Unit Residual Land Value	$359,000	$128,000
Est. Total Development Costs, Including Land, per unit	$671,000	$615,000
Per Unit Avg. Sales Value (2005)	$787,000	$748,000
Est. Land Value per sf of land	$142.00	$186.00
Eligible Per Unit BMR Costs	$201,000	$315,000
Avg. Lower Mod. BMR Price	$297,200	$263,900
Avg. Higher Mod. BMR Price	$373,500	$341,800
Comparison of Eligible BMR Costs to Permitted Prices		
Avg. Lower	Cost is less than price	Cost exceeds price
Avg. Higher Mod.	Cost is less than price	Cost is less than price

Source: Keyser Marston Associates, Inc. 7/28/05

The key findings of this analysis are as follows:

- Both prototypes (including the provision of the requisite BMR units) appear to be financially feasible under current market conditions, assuming no unusual site considerations. The townhome and condominium prototypes are estimated to yield a land value of approximately $142.00 and $186.00 per square foot of land area, respectively. These values will likely support the cost of acquiring many underdeveloped sites in Palo Alto.

- Not withstanding the current feasibility of the City's BMR program and pricing policies from a developer's perspective, it is likely that requests to negotiate BMR prices will increase due to the following:

- The "eligible per unit BMR costs" allowed under the BMR program are significantly less than total per unit development costs, even before land costs are considered. As shown above, total per unit costs for the townhome prototype are estimated at $312,000

excluding land compared with the eligible cost of $201,000. For the condominium prototype, the eligible cost is $315,000 versus the estimated actual cost of $487,000.

- Land prices are rapidly escalating and represent a significant component of total project costs. The development community will likely contend that land costs should be included in “eligible per unit BMR costs.”

- The estimated eligible construction costs for the higher density condominium project exceed the BMR pricing guidelines for the Lower Moderate BMR units. This is a result of rapidly escalating construction costs, the relatively high cost of constructing higher density stacked condominium units compared with the cost of constructing townhome units, and the consideration that the price guideline for townhome units is the same as the price guideline for condominium units.

Given market conditions, challenges based on excessive costs are likely to become more prevalent. However, because the market is so strong, the values created by the market rate units are sufficient to off-set the cost of providing the BMR units, resulting in feasible projects, despite the BMR units. Therefore, in our opinion, the prices of the BMR units do not need to be adjusted upward to reflect “eligible costs” in order to maintain the feasibility of new residential developments.

Given both: 1) the prevailing public policy trend toward establishing BMR prices solely on the income limits; and 2) the findings of the feasibility analysis, we recommend that the City eliminate the “cost-based minimum pricing” provision from its BMR program. This will:

- Simplify administration;

- Ensure that prices are consistent with the incomes of eligible buyers;

- Bring the program in-line with peer community trends; and

- Clarify the program to the development community.

3.1.3 Evaluation of BMR Pricing Guidelines and Underwriting Criteria

The variables that drive the formula for setting Palo Alto’s BMR housing prices for new units are as follows:

1. Housing costs as a percentage of household income

2. Income level (% of Area Median Income (AMI))

3. Assumed household size for each unit size

4. Down payment percentage

5. Mortgage interest rate

6. Allowances for property taxes, HOA dues, insurance, capital replacement and maintenance

As shown in Table 3-2, the underwriting criteria of Palo Alto's BMR program (as specified in the March 24, 2004 Planning Division Memorandum entitled "Updated Price Guidelines for New BMR Units") are as follows:

1. Housing costs as a percentage of gross household income – 30% (includes mortgage, property taxes, insurance, HOA dues, maintenance and capital replacements)

2. Income level (% of Area Median Income (AMI))

    - Lower Moderate Households: Average of households earning between 80% and 100% of AMI

    - Higher Moderate Households: Average of households earning between 100% and 120% of AMI

3. Assumed household size for each unit size – composite

4. Downpayment % – 5%

5. Mortgage interest rate – 5.75%

6. Allowances – .89% for mortgage insurance, 1.25% for taxes, and $350 per month for HOA dues, fire insurance, maintenance, and capital replacements.

These underwriting criteria are generally similar to those of many other programs. However, there are a few components that we recommend be reconsidered. The first factor is the income level used for pricing. Currently, the program provides a "price guideline" that represents the average between the price calculated at 80% and 100% of AMI for the "Lower Moderate" income units and another guideline price for the "Higher Moderate" equivalent to the average between 100% and 120% of AMI. It is our understanding that while the City establishes these averages as the guidelines, the City also negotiates the prices within the income range on a project-by-project basis.

While we concur that Palo Alto's BMR program needs to have some flexibility, we recommend that flexibility be provided in areas other than pricing, such as negotiating the mix and size of affordable units. We recommend that a set pricing structure be established for the program that would not be subject to negotiation. Given the current program, we recommend that two sets of prices be established: one set of prices for the 80% to 100% of AMI units and a second set for

the 100% to 120% of AMI units. Reasonable prices would be 90% of AMI for the 80% to 100% range, and 110% for the 100% to 120% range. The primary benefit of establishing a fixed price that is no higher than the median of the income range is that it provides a sufficient margin between price and incomes to ensure a reasonably sized pool of eligible buyers.

The second issue is the composite household size assumed for each unit size. As shown on Table 3-2 (page 3-14), Palo Alto's program for the 3 and 4 bedroom units is skewed toward larger household sizes, with three bedroom prices based on incomes of households ranging from 3 to 6 persons and four bedroom prices based on incomes of 4 to 8 person households. With these assumptions, smaller households, such as four persons for a 3 bedroom home could be required to spend significantly more than 30% of their income on monthly housing costs. Many programs base pricing on a household size standard that exceeds the number of bedrooms by one. For example, the price of the three-bedroom home would be based on a 4-person household. While not a critical issue, we recommend that this standard be considered because it would increase the affordability of the program and simplify the calculation of prices for new units.

With respect to the timing for establishing the applicable prices for each specific project, it is our understanding that the City generally applies the prices that are in effect at the time that the project's final map is approved. If, for example, the final map is approved in December 2004, then the BMR prices for the specific project would reflect the City's published prices as of December 2004. The advantage of this structure is certainty. The disadvantage is that the units will likely be marketed at least one year later and the prices will not be consistent with conditions present at the time of marketing. It is our experience that many programs require prices for each project to be tied to the annual established price list that is in place at the time that the units are being marketed. This typically works to the developer's advantage because the units will be priced based on the current AMI. We have found that the published prices available during the entitlement process as well as knowledge of the formula used by the City to annually set prices provide the development community with sufficient information and certainty to secure financing. Non-profit housing developers are always faced with this situation in which they are securing financing based on rents or prices that will not necessarily be applicable at the time that the units are actually rented or sold. The lending institutions are aware of and comfortable with this structure.

Chart 3.1-D and Table 3-3 (page 3-15) present a calculation of BMR prices reflecting our recommendations regarding household size and income level. As shown, the resulting prices would generally be somewhat less than the current average BMR price guideline because of the reduction in the assumed household size.

Chart 3.1-D. Comparison of BMR Prices Yielded by City Formula and KMA Recommendation

	Assumed Household Size by City	City's Current Average BMR Price Guideline	Assumed Household Size by KMA	Price Reflecting KMA's Recommendations
80% to 100% of Median				
Studio	1	$190,200	1	$190,100
One Bedroom	1 or 2	$209,300	2	$224,500
Two Bedroom	2, 3 or 4	$262,750	3	$259,000
Three Bedroom	3, 4, 5 or 6	$308,700	4	$293,400
Four Bedroom	4, 5, 6, 7 or 8	$354,500	5	$320,900
100% to 120% of Median				
Studio	1	$243,600	1	$243,700
One Bedroom	1 or 2	$266,650	2	$285,800
Two Bedroom	2, 3 or 4	$331,600	3	$327,800
Three Bedroom	3, 4, 5 or 6	$387,450	4	$369,900
Four Bedroom	4, 5, 6, 7 or 8	$443,250	5	$403,600

Source: Keyser Marston Associates, Inc. 7/28/05

3.1.4 Policy Considerations and Recommendations

The key findings of these analysis and our recommendations based on the findings are as follows:

- The analysis of the development economics of prototypical developments with BMR inclusionary units indicates that the City's Price Guidelines yield feasible projects and there is not a compelling reason to negotiate prices on a project-by-project basis.

- Given both 1) the prevailing public policy trend toward establishing BMR prices solely on the income limits; and 2) the findings of the feasibility analysis, we recommend that the City eliminate the "cost-based minimum pricing" provision from its BMR program. This will:

  - Simplify administration;

  - Ensure that prices are consistent with the incomes of eligible buyers;

  - Bring the program in-line with public policy trends; and,

  - Clarify the program to the development community.

- We recommend that the City annually establish a list of prices for BMR units that would apply to all new BMR units. The prices would not be subject to negotiation. It is our understanding that in May 2005 the City adopted this recommendation. The City sets prices based on HCD's published income limits as of May 1st.

- The formula used by the City to establish its BMR Price Guidelines is generally consistent with public policy standards. We recommend that the formula be simplified as follows:

  - Establish the price for all lower moderate income units at 90% of AMI;

  - Establish the price for all upper moderate income units at 110% of AMI;

  - Base unit prices on a household size equal to the number of bedrooms plus 1;

  - When establishing annual prices, use an interest rate that is somewhat higher than then current market rate of interest. This will provide some cushion in an increasing interest rate cycle.

  - Other than as done in the annual price calculations, do not allow for project-specific adjustments to interest rates or other factors; and

  - Apply prices that are in effect as of the date that: 1) the units are being marketed; or 2) a set time period after building permits are issued – for example 5 months after building permits are issued. The advantage of allowing the prices to coincide with the marketing period is that the pricing would be synchronized with eligible household income limits. It has been our experience that many programs provide for marketing materials to be updated if the marketing period spans two different price periods. For example, if the City sets prices in May and a project starts marketing in February but units are still available in May, then the home prices and the incomes of eligible households would both be adjusted in May. The disadvantage of allowing prices to coincide with marketing is the potential additional cost and burden of updating marketing materials.

TABLE 3-1
SUMMARY OF FOR-SALE BMR PROGRAMS PRICE SETTING PRACTICES
BMR PROGRAM UPDATE
CITY OF PALO ALTO

	Palo Alto	Cupertino	Menlo Park	Mountain View	Sunnyvale
Contact Information	Cathy Siegel (650) 329-2441	Vera Gil (408) 777-3251	Housing Staff (650) 330-6706	Lynnie Melena (650) 906-6466	Lupita Gaeta (408) 730-7812
Year Established/Updated	Est. 1974	Est. 1993; Updating	Est. 1988	Est. 1999	Est. 1980; Updated in 2003/2004.
Basic Requirement	15 - 25% of units	15% of units	5 to 19 units: 10% of units	10% of units	12.5% of units
Income for Qualification	2/3 of BMR units: 80 - 100% AMI Up to 1/3 of BMR units: 100 -120% AMI Resale Units: average ~60% AMI	Median: 81-100% AMI Moderate: 101-120% AMI.	Up to 120% AMI	Moderate: 80 - 100% AMI	80 - 120% AMI (ownership units)
Income for Price Calculation	Calculates affordable prices for bottom and top of income/HH size range and takes the average. (See Comments)	Median: 100% AMI Moderate: 120% AMI	110% AMI	Each project serves a range of incomes: prices set @ different percentages from 80 to 100%.	80% AMI ("with consideration for construction costs.")
Household Size to Number of Bedrooms	HH Size: # of BRs: 1 0 1-2 1 2-4 2 3-6 3 4-8 4	HH Size: # of BRs: 1-2 1 2-4 2 3-5 3 4-6 4	HH Size: # of BRs: 1 0 1 1 2 2 3 3 4 4	HH Size: # of BRs: 1 0-1 2 1-2 3 2-3 4 2-4 5 3-4	HH Size: # of BRs: 1-3 1 2-5 2 3-7 3
Housing as Percent of Income	30%	30% (Includes mortgage, taxes, insurance, HOA)	33% (Includes mortgage, taxes, insurance, HOA, maintenance)	~ 31% (Includes mortage, taxes and insurance. See Underwriting Criteria).	30% (Includes mortgage, taxes, insurance, other debt payments. See Comments)
Underwriting Criteria	2004 Assumptions: Interest Rate: 5.75% Mortgage Insurance: 0.89% Taxes: 1.25% Total Effective Interest Rate: 7.89% Term: 30 years Downpayment: 5% HOA Dues, Repairs, & Insurance: $350 per month	Interest Rate: 8% Term: 30 years Downpayment: 5% Other: property taxes, HOA dues, insurance, and utilities.	Surveys three local lenders and takes the average interest rate, and the average minimum down payment (typically 5%). Term: 30 years Other: Property taxes and HOA dues are project specific, maintenance = $100/month, insurance estimates obtained from local sources.	Interest Rate: 6% Term: 30 years Downpayment: 5% Front/Back Ratio: 31/37 Other Debt Pmts: $400/mo. for a 2-person HH, $450 for a 3-person HH. The City uses the mortage calculator from www.themortgage-authority.com. The calculator makes assumptions regarding taxes and insurance. No allowance for HOA dues or utilities.	Interest Rate: 7.25% Term: 30 years Downpayment: 5% Property Taxes: 1.1% Insurance, HOA dues, repairs: $250/mo.
Initial Pricing	"..the average price affordable by HHs in the target income range" and the appropriate household size range. (See Comments.) "In all cases, the sales price should be sufficient to cover the estimated cost to the developer of constructing the BMR unit, including financing, but excluding land, marketing, off-site improvements, and profit."	Maximum affordable mortgage given underwriting criteria and income guidelines plus downpayment.	Maximum affordable mortgage given underwriting criteria and income guidelines plus downpayment. Calculated for each project/phase of project.	Project specific. The City approves the sales prices for each development.	Maximum affordable mortgage given underwriting criteria and income guidelines plus downpayment, "with consideration for construction costs."
Comments	Example Initial Price Calculation: For a 3 BR unit serving 80 -100% AMI, the city calculates the affordable price for a 3 person HH earning 80% and the affordable price for a 6 person HH earning 100%. The City's "price guideline" for 3 BR units is the average of these two prices. Note: The City's limits for HH size by unit size are slightly different from the guidelines used for price setting.			"…using 1/3 of the CPI..ensures a supply of units serving HHs at the lower end of the target 80-100% (AMI)…New houses serve the upper end of the range…" Discussion with City Staff indicates that the program is very complicated and difficult to administer.	Unclear exactly what is counted in the 30% of income spent on housing. City staff indicated that the ratio is a back ratio, although there is no assumption made for other debt in the analysis done to support the revised BMR program.

TABLE 3-1
SUMMARY OF FOR-SALE BMR PROGRAMS PRICE SETTING PRACTICES
BMR PROGRAM UPDATE
CITY OF PALO ALTO

	San Carlos	San Jose Redevelopment	San Mateo	Danville	Davis
Contact Information	Laura Snideman (650) 802-4490	San Jose RDA (408) 794-1000; Department of Housing (408) 277-4747;	Sandy Council (650) 522-7223	David Crompton (925) 314-3349 x3310	Danielle Forster (530) 757-5691 x7372
Year Established/Updated	Updated 2004	Est. 2001	Est. 1993	Est. 1994	Est. 1990; Updated 2005
Basic Requirement	15% of units	20% at moderate or low	10% of units	10% - 15% of units, depending on	25% of Units
Income for Qualification	Very Low: 50% AMI Low: 80% AMI Moderate: 120% AMI	Very Low: 30-50% of AMI Low: 50-80% of AMI Moderate: 80-120% of AMI	Up to 120% AMI	Moderate: 81-110% AMI	Low: 51-80% AMI Moderate: 80- 120% AMI
Income for Price Calculation	Not yet determined.	Very Low: 50% of AMI Low: 70% of AMI Moderate: 110% of AMI	Multifamily projects: 100% AMI Single-family developments: 110% AMI	110% AMI	If onsite: average affordability level of 100% AMI
Household Size to Number of Bedrooms	Not yet determined. Will be a minimum of 1.5 persons per bedroom.	HH Size: # of BRs: up to 2 1 up to 3 2 up to 4 3 up to 5 4	HH Size: # of BRs: 2 1 3 2 4 3	Typically suggests that developer should provide 3 BR units so sales price can reflect 4 person HH.	For the purposes of calculating sales prices, assumes 1 more person than the number of bedrooms.
Housing as Percent of Income	30% (Includes mortgage, insurance and HOA)	35% for Moderate 30% for Low and Very Low (Includes mortgage, taxes, HOA dues, insurance, utilities)	Multifamily: 30% Single family: 35% (Includes insurance, property taxes, and HOA)	A maximum of 35% (Includes mortgage, property taxes, HOA dues)	35% (Includes mortgage, insurance, property taxes, HOA dues)
Underwriting Criteria	Not yet determined.	Interest Rate: prevailing fixed rate. Term: 30 years Downpayment: 5% Other: Actual HOA dues, actual property taxes, utilities based on allowances, actual insurance costs, mortgage insurance premium, maintenance & repair allowance.	Interest Rate: 5.5% currently. Term: 30 years Downpayment: 5% Other: Insurance, HOA, taxes.	Interest Rate: prevailing fixed rate. Term: 30 years Downpayment: Prepares a range of sales prices for a range of downpayments. HOA: $125/month Other: property taxes	Interest Rate: 7% currently. Term: 30 years Downpayment: 5% Other: Insurance, HOA, taxes.
Initial Pricing	Not yet determined.	Developer prepares the pricing when they market the units; Housing Dept. approves the final pricing calculations.	Maximum affordable mortgage given underwriting criteria and income guidelines plus downpayment. Determined once a year.	Maximum affordable mortgage given underwriting criteria and income guidelines plus downpayment. Determined for each project.	Maximum affordable mortgage given underwriting criteria and income guidelines plus downpayment. Determined once a year.
Comments	Recently updated its program and has not determined the exact procedure for initial price-setting.		Note: For units providing congregate care or personal assistance for residents, costs of care shall be separate from housing costs and not included in pricing formula.		For units built onsite, developer must provide 2- and 3-BR units, with a mininum of 50% 3 BRs.

TABLE 3-1
SUMMARY OF FOR-SALE BMR PROGRAMS PRICE SETTING PRACTICES
BMR PROGRAM UPDATE
CITY OF PALO ALTO

	Irvine	County of Monterey	Pasadena	Sacramento	San Diego
Contact Information	Amy Urcis (949) 724-6546	Jim Cook (831) 786-1350	Julie Romey - KMA (213) 622-8095	Beverly Fretz-Brown (916) 444-9210	Linnie Gavino (619) 718-9508
Year Established/Updated	Est. 1978	Updated 2003	Est. 2001	Est. 2000	Est. Citywide in 2003
Basic Requirement	Level I and II: 5%	20% of units	15% of units	Very Low: 10% of units	10% of units
Income for Qualification	Level I and II: Up to 50% AMI Level III: 51-80% AMI Level IV: 81-120% AMI	Moderate: 81-120% AMI Low: 51 - 80% AMI Very Low: 0 - 50% AMI	Very Low: Up to 50% AMI Low: Up to 80% AMI Moderate: Up to 120% AMI	Very Low: Up to 50% AMI Low: 50-80% AMI	100% AMI
Income for Price Calculation	Project specific.	Moderate: 110% AMI Low: 70% AMI Very Low: 50% AMI	Low: 80% AMI Moderate: 110% AMI	Very Low: 50% AMI Low: 60% or 80% AMI	100% AMI
Household Size to Number of Bedrooms	Project specific.	Number of BRs + 1 = Appropriate HH Size	For the purposes of calculating sales prices, assumes 1 more person than the number of bedrooms.	For the purposes of calculating sales prices, assumes 1 more person than the number of bedrooms.	For the purposes of calculating sales prices, assumes 1 more person than the number of bedrooms.
Housing as Percent of Income	30 - 35% (Includes mortgage, insurance, property taxes, HOA dues)	Moderate: 35% Low: 30% Very Low: 30% (Includes mortgage, taxes, insurance, HOA dues, reserves)	Low: 30% Moderate: 40% (Includes mortgage, utilities, HOA dues, taxes, mortgage insurance, other related assessments)	35% (Includes mortgage, taxes, HOA, assessments and insurance)	35% (Includes mortgage, taxes, insurance, HOA and assessments)
Underwriting Criteria	Project specific.	Interest Rate: 7.5% Term: 30 years Downpayment: 10% Other: property taxes, assessments, loan insurance and fees, HOA dues, insurance, allowance for property maintenance and repairs, utilities and land rent (if applicable).	2001 Assumptions: Loan: 8% Term: 30 years Downpayment: 5% of market price Maintenance & Insurance: $1800/year PMI: 0.5% of mortgage Property taxes: 1.0% of market price Utility allowance: electricity, gas, water, and trash.	2005 Assumptions: Loan: 6.5% Term: 30 years Downpayment: 5% Insurance: 0.4% of sales price Flood Insurance: 0.3% of sales price PMI: 0.5% of mortgage Property taxes: 1.25% of sales price HOA: if applicable Mello-Roos: if applicable	Interest Rate: prevailing fixed rate. Term: 30 years Downpayment: 5% Other: property taxes, insurance, HOA, assessments.
Initial Pricing	Developer proposes initial pricing; negotiates with city. Based on maintaining minimum return on investment to developer for the affordable units. City makes up the difference between the affordable sales price and the minimum ROI to developer using a silent second loan.	Maximum affordable mortgage given underwriting criteria and income guidelines plus downpayment.	Maximum affordable mortgage given underwriting criteria and income guidelines plus downpayment.	Maximum affordable mortgage given underwriting criteria and income guidelines plus downpayment. If home is not sold within 6 months, prices will be recalculated.	Maximum affordable mortgage given underwriting criteria and income guidelines plus downpayment. Determined once a year, but adjusted at time of sale for changes in the interest rate.
Comments	Developer can build either rental or for-sale; receives a 2:1 credit for for-sale units. Also can receive bonus credits for 3 BR units, and city allows for flexibility across income levels (can trade very low for low, etc.). Offers a "menu option" only if the fulfillment of obligations otherwise infeasible. City defines infeasible; based on availability of financial assistance from city/federal sources.	"Maximum Affordability Standard" Very Low: 30% of 50% of AMI. Calculate home price supported given underwriting criteria. Low: 30% of 80% of AMI. Calculate home price supported given underwriting criteria. Moderate: 35% of 110% of AMI. Calculate home price supported given underwriting criteria.	Market sales prices determined by city based on four geographical zones.	"A developer may request a determination that the inclusionary housing obligation, including the City's financial incentives as described in the Inclusionary Housing Agreement, would deprive the developer of substantially all the economic value and would constitute a taking of the property of the entire residential project without just compensation. "	

TABLE 3-1
SUMMARY OF FOR-SALE BMR PROGRAMS PRICE SETTING PRACTICES
BMR PROGRAM UPDATE
CITY OF PALO ALTO

	Santa Cruz County	Santa Rosa	Walnut Creek	West Hollywood
Contact Information	Frank Brunings (831) 454-2217	Nancy Gornowicz	Laura Simpson (925) 943-5899 x236	(323) 848-6450
Year Established/Updated	Est. 1988; Updated 2004	Est. 1995	Est. 2004	Est. 1992
Basic Requirement	15% of units	15% of units onsite	10% moderate	20% of units
Income for Qualification	Up to 120% AMI	Low: 51-80% AMI	Very Low: Up to 50% AMI Low: 51- 80% AMI Moderate: 80-120% AMI	Low: Up to 80% of City Median Moderate: 100% of Median
Income for Price Calculation	100% AMI	Low: 80% AMI	Very Low: 50% AMI Low: 80% AMI Moderate: 120% AMI	Low: 65% City Median Moderate: 100% City Median
Household Size to Number of Bedrooms	For the purposes of calculating sales prices, assumes 1 more person than the number of bedrooms.	For the purposes of calculating sales prices, assumes 1.5 persons times the number of bedrooms.	For the purposes of calculating sales prices, assumes 1 more person than the number of bedrooms.	Maximum of two persons per bedroom; in special circumstances, will consider allowing one extra person per unit.
Housing as Percent of Income	30% (Includes mortgage, property taxes, insurance and utilities and 70% of HOA dues)	Low: 30% (Principal and interest only)	35% (Includes mortgage, taxes, utilities, property insurance, HOA dues)	Not to exceed between 30% and 35% (Includes insurance, property taxes, and HOA)
Underwriting Criteria	Interest: prevailing fixed rate. Term: 30 years Downpayment: 10% Other: an allowance for property taxes, insurance and utilities is included in affordable housing costs. This allowance is set at 20% of the 30% of income available for housing. An HOA allow. equal to 70% of HOA dues is included in affordable housing costs.	Calculates affordable sales prices for a range of interest rate (5% through 9.9%). City determines current rate. Term: 30 years Downpayment: 10% Other: principal and interest only.	Interest Rate: 2 pts. above prevailing fixed rate Downpayment: 5% Insurance, Condo Fee, PMI, Utilities: $5,160 per year Taxes: 1.25%	N/A; see below.
Initial Pricing	Maximum affordable mortgage given underwriting criteria and income guidelines plus downpayment.	Maximum affordable mortgage given underwriting criteria and income guidelines plus downpayment.	Maximum affordable mortgage given underwriting criteria and income guidelines plus downpayment "with consideration for construction costs."	Lower income: no more than 2.5 times 65% of median income for the city. Moderate income: no more than 2.5 times the median income of the city. Adjusted by "bedroom factor." HOA dues included in calculation of total unit costs.
Comments	Determines maximum congregate care rents separately.	Developer can choose to build either for-sale or rental units (traded on a one-for-one basis). Rental units targeted at 60% AMI.		Conversation with city staff indicates that West Hollywood's sale prices are far lower than necessary for affordability, given recent interest rates. Excludes residential care facilities.

TABLE 3-2
CURRENT CITY METHODOLOGY FOR ESTABLISHING SUPPORTABLE HOUSING PRICES (STUDIOS TO 4-BEDROOMS)
2004 AND 2005 INCOME STANDARDS DISTRIBUTED BY HUD (SANTA CLARA COUNTY)
BMR PROGRAM UPDATE
CITY OF PALO ALTO

80% to 100% of Median Income

Unit Type	Household Sizes	Minimum Affordable Price[1]	Maximum Affordable Price[2]	Average Affordable Price/BMR Unit Price
Studio	1	$163,500	$216,900	**$190,200**
One Bedroom	1 or 2	$163,500	$255,100	**$209,300**
Two Bedroom	2, 3, or 4	$193,900	$331,600	**$262,750**
Three Bedroom	3, 4, 5, or 6	$224,500	$392,900	**$308,700**
Four Bedroom	4, 5, 6, 7, or 8	$255,100	$453,900	**$354,500**

100% to 120% of Median Income

Unit Type	Household Sizes	Minimum Affordable Price[1]	Maximum Affordable Price[2]	Average Affordable Price/BMR Unit Price
Studio	1	$216,900	$270,300	**$243,600**
One Bedroom	1 or 2	$216,900	$316,400	**$266,650**
Two Bedroom	2, 3, or 4	$255,100	$408,100	**$331,600**
Three Bedroom	3, 4, 5, or 6	$293,400	$481,500	**$387,450**
Four Bedroom	4, 5, 6, 7, or 8	$331,600	$554,900	**$443,250**

Affordable price calculations assume: 5% downpayment, 5.75% interest, 30 year fixed, 0.89% mortgage insurance, 1.25% taxes, and HOA dues of $350 per month.

1. Equals the supportable housing price for the smallest eligible household size at the lower end of income range (e.g., for a two bedroom apartment in the 80 - 100% of median income category, the minimum affordable price is the price affordable to a 2-person HH earning 80% of median).

2. Equals the supportable housing price for the largest eligible household size at the upper end of income range (e.g., for a two bedroom apartment in the 80 - 100% of median income category, the maximum affordable price is the price affordable to a 4-person HH earning 100% of median).

TABLE 3-3
KMA RECOMMENDED METHODOLOGY FOR SUPPORTABLE HOUSING PRICES (STUDIOS TO 4-BEDROOMS)
2004 AND 2005 INCOME STANDARDS DISTRIBUTED BY HUD (SANTA CLARA COUNTY)
BMR PROGRAM UPDATE
CITY OF PALO ALTO

	Studio 1 Person	1 Bedroom 2 Person	2 Bedroom 3 Person	3 Bedroom 4 Person	4 Bedroom 5 Person
110% of Median					
Household Income @ 110% County Median	$81,250	$92,850	$104,450	$116,050	$125,350
Income Allotted to Housing @ 30% of Income	$24,375	$27,855	$31,335	$34,815	$37,605
(Less) Ongoing Expenses[1]	(4,200)	(4,200)	(4,200)	(4,200)	(4,200)
Income Avail. for Mortgage/Prop Taxes/Mort. Insur.	20,175	$23,655	$27,135	$30,615	$33,405
Maximum Purchase Price[2]	$243,700	$285,800	$327,800	$369,900	$403,600
90% of Median					
Household Income @ 90% County Median	$66,450	$75,950	$85,450	$94,950	$102,550
Income Allotted to Housing @ 30% of Income	$19,935	$22,785	$25,635	$28,485	$30,765
(Less) Ongoing Expenses[1]	(4,200)	(4,200)	(4,200)	(4,200)	(4,200)
Income Avail. for Mortgage/Prop Taxes/Mort. Insur.	15,735	18,585	21,435	24,285	26,565
Maximum Purchase Price[2]	$190,100	$224,500	$259,000	$293,400	$320,900

[1] Homeowner association dues, repairs and maintenance and fire insurance. If HOA dues are lower (e.g., a townhome project with no common amenities and more owner repair responsibilities), then owner needs to allow more for insurance and unit repair/maintenance. Does not include utility expenses.

[2] Affordable price calculations assume: 5% downpayment, 5.75% interest, 30 year fixed, 0.89% mortgage insurance, 1.25% taxes, and HOA dues of $350 per month.

Note: All underwriting assumptions are consistent with the City of Palo Alto's current methodology.

3.2 Resale Prices of BMR Units and Permitted Appreciation

This section addresses the BMR program's current policy for establishing the resale prices of BMR homes, including the following:

- A summary of the City's current policy,
- A summary of the City's objectives for the BMR appreciation formula,
- Recommended revisions to the City's formula for establishing resale prices.

3.2.1 Summary of the BMR Program's Current Resale Pricing Policy

The formula for establishing the resale price of each BMR home is provided in the deed restriction that is recorded with the title of each home at the time of sale. The formulas contained in the deed restrictions provide that the resale price shall be based on the initial purchase price with:

- An upward adjustment to reflect changes in the Consumer's Price Index (CPI). The deed restrictions range from adjustments equal to 100% of the change in the CPI from the date of the initial sale to one-third (1/3) of the change in the CPI, with a large percentage of the BMR inventory governed by the 1/3 CPI appreciation index;
- Upward adjustments to reflect the value of substantial fixed improvements made by the homeowner;
- Upward adjustments to reflect the cost borne by the homeowner to replace appliances that needed replacing; and
- Downward adjustments to reflect the cost of curing any deferred maintenance or replacing appliances at the time of sale.

While there is considerable variation among BMR programs regarding the actual formula for calculating appreciation, most formulas embody the four elements listed above. And, given that Palo Alto was one of the first cities to institute a BMR program, many programs, including Mountain View's and Menlo Park's, have been modeled after Palo Alto.

3.2.2 Summary of City's Objectives for Appreciation Formula

It is our understanding that the City is interested in pursuing revisions to the BMR appreciation formula that will accomplish the following objectives:

1. Preserve BMR units as affordable ownership housing stock over the long term with resale prices not exceeding prices that would be affordable to households in the same income category as the original buyers.

2. Ensure that the resale price is sufficiently below the market rate value of similar non-BMR units;

3. Be easy to explain, calculate and administer and not favor selling at any particular time of the year;

4. Ensure that the resale price is not less than the price originally paid by the owner;

5. Provide BMR owners with more appreciation than what is currently being generated by the 1/3 CPI appreciation factor;

6. Ensure that resale prices are less than the prices of newly-constructed BMR units at the same income category; and

7. Encourage and require higher maintenance standards.

8. Allow owners/sellers to recapture the costs of HOA special assessments.

While each of these objectives appears to be both reasonable and achievable, there are a myriad of factors that affect the resale price and the market conditions in which the resale will be operating. As a result, it is difficult to establish a set-formula that will achieve all of these objectives in perpetuity.

3.2.3 The Appreciation Index and Factor

The appreciation index and appreciation factor drive the appreciation formula. The City's current policy of limiting appreciation to 1/3 of the CPI was adopted in response to the double-digit rate of inflation that was experienced in the mid 1970s and the early 1980s. During that period, inflation outpaced income growth and the growth rate of market rate home prices. The City experienced problems in finding income-eligible buyers who could afford the resale prices and resale prices were also in some cases approaching market rate prices.

Over the past 15 years, however, conditions have dramatically changed. As shown on Table 3-4 (page 3-23), inflation has remained at a very manageable rate of approximately 3% per year while the median income has increased at approximately 5% per year and the prices of market rate attached homes in Palo Alto have increased at approximately 7% per year. This set of dynamics has generated a new set of difficulties for the resale of BMR units, especially for units with a 1/3 CPI appreciation factor. The key issues are as follows:

- Limiting appreciation to 1/3 of the CPI has not generated sufficient value or incentive for owners to upgrade and, in many cases, maintain their properties. As a result, the physical condition of many BMR units is declining.

- Many units are in need of significant improvements upon resale and the City has had to engage in the difficult and expensive process of funding and contracting for the improvements. The City does not have an established funding source for upgrading the BMR units.

- The need for repairs or upgrades upon resale can, at times, impact the marketability of the units;

- Because incomes have increased at a faster rate than the appreciation index, homes that were originally sold to moderate-income households earning 90% of the AMI are now being marketed to households earning approximately 60% of the AMI. The pool of buyers in the 60% of AMI bracket that have sufficient resources and income available for mortgage payments is relatively small, which can make it difficult to locate a qualified buyer. Additionally, these households do not have the financial capacity to make any needed improvements to the BMR units after they move in.

Most BMR programs use one of three indexes for calculating permitted appreciation: the CPI, the CPI Housing Index, and the AMI. Mountain View and Menlo Park modeled their programs on Palo Alto's program and permit appreciation equal to 1/3 of the CPI. Sunnyvale and Cupertino use the CPI Housing Index as their appreciation index. The CPI Housing index tracks the cost of rental housing over time. Sunnyvale permits appreciation equal to 1/3 of the increase in the Housing index and Cupertino permits appreciation equal to 100% of the increase in the Housing index.

A growing trend is to use the Area Median Income (AMI) as established by the Department of Housing and Community Development as the index for appreciation. The AMI index is used by San Mateo, Davis, Monterey County, and many cities throughout the State with Redevelopment Agencies. As shown on Table 3-4, on page 3-23, the median household income in Santa Clara County increased 123% over the 16-year period from 1988-2004. In comparison, market-rate housing prices for attached housing in Palo Alto increased approximately 166%, the CPI increased 65%, and the CPI Housing increased 74.5%.

To illustrate the impact of these various appreciation indexes, KMA has compared the price of a hypothetical BMR unit initially sold in 1994 and resold 10 years later in 2004. This analysis is presented in Table 3-5, on page 3-24. As shown, it is estimated that a three bedroom BMR home sold in 1994 priced to be affordable to households earning 90% of the AMI would have

been priced at approximately $167,300[2]. The resale price in 2004 would be as follows, depending on the applicable appreciation index:

Appreciation Index	Permitted 2004 Resale Price	Appreciation to Homeowner before Sales Expenses	2004 Price as a % of AMI (Table 3-6)
1/3 CPI	$186,000	$ 18,700	62%
100% CPI	$224,000	$ 56,700	72%
100% AMI	$281,000	$113,700	87%
100% CPI Housing	$244,000	$ 76,700	77%

As this chart highlights, appreciation based on 1/3 of the increase in the CPI would have yielded only $18,700 of appreciation over a 10-year period. This amount of appreciation is insufficient to provide the homeowner with the means or incentive to fund on-going maintenance, such as replacing carpets, repainting, new fixtures, etc. Additionally, because the median income has increased more rapidly than the CPI, the resale price would be at a deeper level of affordability than the original price. Whereas the original price was affordable to households earning 90% of AMI, the resale price would be affordable to households 62% of the AMI.

It is important to note that the relative growth rates of the indexes fluctuate over time and the growth rates experienced over the past 16 years may not continue in the future. This presents a complication in trying to establish an appreciation index that will perform in a predictable manner compared with the housing market, incomes, and inflation.

It is also important to note that over the past 16 years, the escalation of home prices far exceeded increases in income or inflation. As a result, regardless of the applicable appreciation index, the appreciation that a BMR homeowner would receive from a sale would not be sufficient in and of itself to enable the homeowner to move-up into market rate housing.

3.2.4 Recommended Appreciation Index for Establishing BMR Resale Prices

As mentioned previously, no one appreciation index is perfect for all market conditions or parties. With that being said, given the City's objectives for the appreciation formula as stated in Section 3.2.2, we recommend that the appreciation formula for newly constructed BMR units reflect the following:

1. <u>The resale price would be capped at the price of comparable new BMR units being sold at the same level of affordability as the price originally paid by the seller.</u> This provision addresses the City's first objective stated on page 3-17. For example, if the home was initially priced at 90% of AMI, then the resale price would not be permitted to exceed the

[2] Price estimate reflects current program interest rate, a household size of 3 persons, and current program expense allowances adjusted for inflation.

price of a new home with the same bedroom count that is also being priced to be affordable to households earning 90% of AMI with current underwriting assumptions. It is important that under no circumstance could an owner of an existing BMR unit be entitled to a sales price that exceeds the price that the City can charge a new buyer. If that was permitted, then the City could be in the position of having to pay to the seller the difference between the permitted sales price and the maximum price that the City could sell to an income eligible buyer. This provision will also ensure that the sales prices of the existing stock will not, under any circumstance, exceed the price of newly constructed similar units.

2. The resale price would be capped to not exceed 80% of the unrestricted market rate value of the home. This provision is to address the City's second objective. Because market rate home prices have over the past decade increased significantly more than incomes, there has not recently been the need for such a cap. However, in the past, during periods of rapid inflation and declines in the housing market, conditions have existed when the permitted BMR resale prices could approach market rate prices and exceed the incomes of eligible buyers. The recommended cap of 80% of market has been selected as a 20% differential should be adequate for future buyers to accept the long-term deed restrictions on the unit. From an implementation perspective, the value would be established through an appraisal process but the appraisal would only need to be undertaken if there was a concern by the City that the resale price was approaching market.

3. A floor would be established for the resale price that would be equal to the greater of i) the price that the seller paid for the home; or 2) the price that would be affordable to households with incomes that equal 75% of the AMI (for the homes priced at 90% AMI) or 95% (for the homes priced at 110%). The floor would address the City's fourth objective and would also ensure that the affordability level through the resale process would not deepen to the point that it would be difficult to locate households with sufficient resources to qualify for a mortgage. There is some financial risk to the City in setting a floor but we believe that it is minor and can be mitigated by the other components of the appreciation formula.

4. The resale price would be driven by a "base" appreciation index equal to 80% of the increase in the AMI. Under most market conditions, this appreciation index would address the City's first, third, fifth, sixth, and seventh objectives. A recommended companion component to this base appreciation rate would be an incentive provision to increase appreciation above the 80% index level if the seller undertakes capital improvements and a deduction in the event that maintenance standards are not adhered to.

The reason that the AMI is being recommended as opposed to the CPI is because a) ultimately the resale price of the unit will be governed by the incomes of eligible homebuyers, which are governed by the AMI; and b) there is not a solid relationship between the CPI and the AMI. The past year provides a good example of the potential incompatibility of the CPI index for establishing permitted resale prices. The AMI for Santa Clara County has remained flat at $105,500 since 2004. If a BMR unit sold in 2004 and the owner wanted to sell in 2006 and the price was governed by the CPI, then the resale price would be higher than what an income-eligible household at the same level of affordability could pay for the home. The City would be in the position of either having to buy-down the resale price to maintain the affordability level or raising the affordability level of the unit. While the homeowner would in this case benefit from the CPI-based appreciation index, the index would be in conflict with the inflexible income parameters of the AMI. Conversely, in market conditions in which the AMI escalates at a much faster rate than the CPI, the maximum resale price would still be consistent with the initial affordability level of the home as affordable income levels are driven by the AMI. Given that there is not a solid correlation between the CPI and the AMI but the incomes of buyers are set by the AMI, it is recommended that the BMR program be internally consistent by using the AMI as the appreciation index. It is important to note that neither a CPI-based or AMI-based appreciation index mitigate the impact of interest rate change on permitted pricing and appreciation.

It is correct that the base appreciation rate of 80% of the AMI combined with improvement bumps could tend to result in resale prices that approach the prices of new BMR units at the same level of affordability. But, it is our opinion that the objective to provide an incentive for homeowners to maintain their units is more paramount than the objective to deepen the affordability levels of existing units over time. As affordability levels deepen, it becomes more difficult to ensure that the physical condition of the BMR stock is maintained. And, if the units are not adequately maintained, then the 80% margin with deductions for needed repairs should provide an adequate margin for the City to undertake improvements and recover the improvement costs through the resale of the unit at a price consistent with maintaining the same level of affordability.

Many AMI-based appreciation formulas set resale prices based on 100% of the increase in the AMI plus incentive bumps for improvement less deductions for deferred maintenance. While popular, this formula would typically require cities to basically buy-down the incentive bump in order to maintain original affordability levels. We believe that setting the base appreciation factor at less than 100% combined with incentive bumps is preferable as it provides the homeowner with an incentive to undertake improvements and reduces the City's cost exposure.

5. <u>The resale price formula would include both a provision for increasing the resale price beyond the 80% AMI base if the homeowner undertakes capital improvements to the</u>

property or funds major assessments and a provision for reducing the resale price to cover the cost of curing deferred maintenance. These provisions address the City's seventh objective for the BMR program. The recommendations for specific terms are presented in Chapter 4 of this report.

TABLE 3-4
HISTORICAL COMPARISON OF HOME PRICES, MEDIAN INCOME, AND CPI INDICIES
BMR PROGRAM UPDATE
CITY OF PALO ALTO

	Avg. Price of Attached Homes Sold in Palo Alto [1]	*Avg. Annual Change*	***Santa Clara County Median Income; 4 Person HH***	*Avg. Annual Change*	***San Francisco-Oakland-San Jose CPI -- All Items***	*Avg. Annual Change*	***San Francisco-Oakland-San Jose CPI - Housing***	*Avg. Annual Change*
1988	$205,590		$47,400		120.5		126.9	
1989	$253,988	*24%*	$51,100	*8%*	126.4	*5%*	132.4	*4%*
1990	$227,892	*-10%*	$54,000	*6%*	132.1	*5%*	137.3	*4%*
1991	$255,326	*12%*	$57,700	*7%*	137.9	*4%*	142.7	*4%*
1992	$247,425	*-3%*	$59,500	*3%*	142.5	*3%*	146.2	*2%*
1993	$264,088	*7%*	$59,300	*0%*	146.3	*3%*	149.2	*2%*
1994	$254,270	*-4%*	$62,900	*6%*	148.7	*2%*	151.5	*2%*
1995	$254,456	*0%*	$64,200	*2%*	151.6	*2%*	154.5	*2%*
1996	$269,778	*6%*	$67,400	*5%*	155.1	*2%*	157.4	*2%*
1997	$326,869	*21%*	$70,200	*4%*	160.4	*3%*	165.6	*5%*
1998	$374,874	*15%*	$77,200	*10%*	165.5	*3%*	174.4	*5%*
1999	$400,900	*7%*	$82,600	*7%*	172.5	*4%*	185.6	*6%*
2000	$500,739	*25%*	$87,000	*5%*	180.2	*4%*	197.0	*6%*
2001	$482,633	*-4%*	$87,300	*0%*	189.9	*5%*	216.5	*10%*
2002	$501,272	*4%*	$96,000	*10%*	193.0	*2%*	221.4	*2%*
2003	$473,093	*-6%*	$105,500	*10%*	196.4	*2%*	223.7	*1%*
2004	$546,182	*15%*	$105,500	*0%*	198.8	*1%*	221.5	*-1%*
Percentage Increase	***166%***	***7%***	***123%***	***5%***	***65%***	***3%***	***75%***	***4%***

Perctge. Increase, 1988-2004, Attached Home Prices	**166%**	**(Santa Clara County Existing Home Prices)**
Percentage Increase, 1988-2004, Median Income	**123%**	**(Index for San Mateo, Davis, Monterey County))**
Percentage Increase, 1988-2004, CPI -- All Items	**65%**	**(Index for some of Palo Alto's BMR units)**
Percentage Increase, 1988-2004, CPI -- Housing	**75%**	**(Index for Cuptertino's program)**
One-Third of Percentage Increase, CPI -- All Items	**22%**	**(Index for many of Palo Alto's BMR units Mountain View , Menlo Park)**
One-Third of Percentage Increase, CPI -- Housing	**25%**	**(Index for Sunnyvale's BMR program)**

1. DataQuick Information Systems.
Sources:
CPI - All Urban Consumers, San Francisco-Oakland-San Jose, All Items and Housing, Base Period 1982-84 = 100, US Bureau of Labor Statistics.
Median Income for Santa Clara County as published by the California Department of Housing and Community Development.
Real Estate Research Council of Northern California.

Prepared by Keyser Marston Associates, Inc.
17175.005/ 001-020 T3.xls;Table 3-4;3/5/2007;hgr

TABLE 3-5
ALLOWABLE RESALE PRICES AND APPRECIATION - RANGE OF APPRECIATION RATES
BMR PROGRAM UPDATE
CITY OF PALO ALTO

Lower Moderate: 90% of Median Income

Unit Type	Household Size	1994 KMA recommended formula (Affordable Sales Price)	2004 Price Escalation based on Median Income Esc. 68%	2004 Price Esc. based on Full CPI 34%	2004 Price Esc. Based on 1/3 CPI 11%	2004 Price Esc. Based on Full CPI Housing 46%
Studio	1	$105,700	$178,000	$142,000	$118,000	$154,000
One Bedroom	2	$126,300	$212,000	$169,000	$141,000	$184,000
Two Bedroom	3	$146,600	$246,000	$196,000	$163,000	$214,000
Three Bedroom	***4***	***$167,300***	***$281,000***	***$224,000***	***$186,000***	***$244,000***
Four Bedroom	5	$184,000	$309,000	$247,000	$205,000	$269,000

	Appreciation 1994 to 2004			
Studio	$72,300	$36,300	$12,300	$48,300
One Bedroom	$85,700	$42,700	$14,700	$57,700
Two Bedroom	$99,400	$49,400	$16,400	$67,400
Three Bedroom	***$113,700***	***$56,700***	***$18,700***	***$76,700***
Four Bedroom	$125,000	$63,000	$21,000	$85,000

Higher Moderate: 110% of Median Income

Unit Type	Household Size	Affordable Sales Price				
Studio	1	$137,900	$232,000	$185,000	$154,000	$201,000
One Bedroom	2	$162,600	$273,000	$218,000	$181,000	$237,000
Two Bedroom	3	$187,900	$316,000	$252,000	$209,000	$274,000
Three Bedroom	4	$212,900	$358,000	$285,000	$237,000	$311,000
Four Bedroom	5	$232,900	$391,000	$312,000	$259,000	$340,000

	Appreciation 1994 to 2004			
Studio	$94,100	$47,100	$16,100	$63,100
One Bedroom	$110,400	$55,400	$18,400	$74,400
Two Bedroom	$128,100	$64,100	$21,100	$86,100
Three Bedroom	$145,100	$72,100	$24,100	$98,100
Four Bedroom	$158,100	$79,100	$26,100	$107,100

Prepared by Keyser Marston Associates, Inc.
17175.005/001-020 T3.xls;Table 3-5&6;3/5/2007;hgr

TABLE 3-6
AFFORDABILITY OF PERMITTED RESALE PRICES - RANGE OF APPRECIATION FORMULAS
HYPOTHETICAL RESALE OF 1994 UNIT IN 2004
BMR PROGRAM UPDATE
PALO ALTO, CA

		Estimated 2004 Permitted Resale Price			
3 bed home - Priced at 90% AMI in 1994	**1994 Price $167,300**	**Median Income $281,000**	**Full CPI $224,000**	**1/3 CPI $186,000**	**Full CPI Housing $244,000**
Debt Service		$23,260	$18,542	$15,396	$20,197
Plus Expenses		$4,200	$4,200	$4,200	$4,200
Total Housing Expenses		$27,460	$22,742	$19,596	$24,397
Income Allocated to Housing Expenses		30.0%	30.0%	30.0%	30.0%
Minimum Annual 2004 Income for Affordability		$91,534	$75,807	$65,322	$81,325
Median Income 2004, household of 4		$105,500	$105,500	$105,500	$105,500
Minimum Annual Income as a % of AMI		**87%**	**72%**	**62%**	**77%**

		Estimated 2004 Permitted Resale Price			
3 bed home - Priced at 110% AMI in 1994	**1994 Price $212,900**	**Median Income $358,000**	**Full CPI $285,000**	**1/3 CPI $237,000**	**Full CPI Housing $311,000**
Debt Service		$29,634	$23,591	$19,618	$25,744
Plus Expenses		$4,200	$4,200	$4,200	$4,200
Total Housing Expenses		$33,834	$27,791	$23,818	$29,944
Income Allocated to Housing Expenses		30.0%	30.0%	30.0%	30.0%
Minimum Annual 2004 Income for Affordability		$112,780	$92,638	$79,394	$99,812
Median Income 2004, household of 4		$105,500	$105,500	$105,500	$105,500
Minimum Annual Income as a % of AMI		**107%**	**88%**	**75%**	**95%**

3.3 Maintenance and Treatment of Capital Improvements on Resale

This section evaluates mechanisms by which the BMR owners and the City may maintain the BMR units in good, marketable condition through repairs, rehabilitation, and capital improvements, including the following:

- A review of available information on the condition and age of the BMR units,
- A summary of relevant information gathered in the City's BMR homeowner survey,
- A summary and evaluation of the relevant aspects of the City's existing BMR program,
- A summary of outside sources of funds for repairs, rehabilitation, and capital improvements grants and loans, and
- Recommendations for changes to the BMR deed restrictions and Policy and Procedures Manual (Manual).

Please note that while there are at least 29 different versions of the City's deed restrictions currently recorded on title for the BMR units, references in this report to the City's existing deed restrictions refer to the August 1993 version of the deed restrictions included in the Manual.

3.3.1 Condition and Age of the BMR Units

Through inspections of BMR units that have come on the market for resale, City and PAHC staff has become aware of BMR units that are not being well maintained and have not been updated. Even with basic maintenance, after twenty or more years, the units need significant improvements as kitchens and bathrooms become out-dated. City and PAHC staff have indicated that it has been difficult in some cases to sell the units, even with low prices under the deed restrictions, due to worn and out-dated finishing's, fixtures and appliances. PAHC staff has also noted that some BMR owners, who have aged or become disabled, do not have the financial resources to move from their BMR units that are not accessible in multi-story buildings.

Deferred maintenance, such as leaky windows or toilets or faulty wiring, can rapidly escalate into more critical and costly repairs, which could pose health and safety issues for the occupants. Units that were built prior to 1979 also could have lead-based paint in the units. City staff has also noted the possibility of asbestos in some units.

The City's inventory of BMR ownership units indicates that:

- 57 of the 169 units are over 25 years old,
- 105 units are over 20 years old,

- 142 units are over 15 years old, and
- 160 units are over 10 years old.

Depreciation schedules used by City Real Property staff to depreciate owner's capital improvements suggest that the maximum useful life on an average, depending on the care of the unit, would be:

- after 10 years, appliances such as washer/dryers and dishwashers would need to be replaced;
- after 15 years, refrigerators, carpeting, and other flooring would need to be replaced;
- after 20 years, counter tops in the kitchens and toilets, showers, sinks, and faucets in the bathrooms would need to be replaced; and
- after 25 years, kitchen cabinets and kitchen ranges would need to be replaced.

Additional information on the condition of the BMR units as a result of the survey conducted by the City of BMR homeowners is provided in the subsection below.

3.3.2 Summary of Relevant Homeowner Survey Results

In December of 2004, the City conducted a survey of BMR homeowners. The preliminary results of the homeowner survey provide valuable information on homeowner demographics, the condition of the units, maintenance and capital improvements made by the homeowners, and constraints on, or disincentives to, maintaining or improving the units. While the final homeowner survey results were not available at the time this section of the report was prepared, the survey data could provide additional valuable information on the condition of the BMR units and potential demand/need for publicly-funded grants and/or loans for BMR unit repairs, rehabilitation and improvements. For example, the number of extremely low or very low-income BMR owners who have appliances in need of repair or replacement could be quantified.

The 124 BMR owners who responded to the survey provided this profile:

- 87% of the owners were low-income households, including 25% of the total respondents in the extremely low income category, 30% in the very low income category, and 32% in the low income category,
- 48% of the households included a person aged 60 or older,
- 15% of the households included a person with a physical disability,

- 28% of the owners indicated that their income had decreased since they had purchased their BMR unit,
- 6% indicated that their income had remained the same,
- 27% of the owners expected their income to decline within the next five years.

Of the survey respondents, 44% were very satisfied with their units in terms of size and amenities and only 8% of the BMR owners were dissatisfied with their units. However, some BMR owners indicated that when they purchased their home, the unit was not in good condition or was not up to building codes. Several respondents commented that the carpets and blinds needed replacing when they purchased their BMR unit and that appliances broke soon after the purchase. Many respondents indicated that some appliances, bathroom fixtures, tubs, toilets, and heating systems were currently not working or in need of repair. Many respondents indicated that their units needed new paint, flooring, carpeting, fixtures, and appliances. One household noted that they were experiencing difficulty negotiating the stairs in their two-story unit. Another respondent indicated concern that the unit had an asbestos ceiling.

Given the income level of the survey respondents, a surprising number of survey respondents indicated that they had done maintenance, such as painting, repairing the roof, repairing appliances and heating systems, replacing water heaters, and doing termite work, and had made improvements to their BMR units, replacing appliances, blinds, flooring, carpets, and bathroom tile; remodeling kitchens; and adding air conditioning, energy efficient windows, attic insulation, and garage door openers. The owners provided valuable information on what maintenance or improvements will be needed in the future; for example, 36% of the units had not been painted for five years, 71% had a water heater that is over 10 years old, etc.

A number of survey respondents commented that they needed assistance with repairs and improvements to the units. Some respondents commented that they were not financially able to, or had no incentive to, fix up their units and that the costs of high homeowner association dues and major homeowner association special assessments prevented them from being able to maintain or improve their units.

Other homeowner survey results or comments are included throughout this section.

3.3.3 Summary and Evaluation of Relevant Aspects of the City's Existing BMR Program

3.3.3.1 BMR Appreciation Formula

As discussed in Section 3.2 of this report, the BMR Program's current appreciation rate does not provide enough equity to provide incentives, or to cover financing necessary, to ensure that the units are maintained as the units' age. If the City were to adopt an appreciation formula that allows greater appreciation of the value of the BMR units and existing BMR owners were given

the option to record new deed restrictions with the higher appreciation formula, existing BMR owners could have sufficient equity in their units to cover property maintenance and capital improvements. This would be important if the City sets up a rehabilitation loan program with favorable terms (zero interest rate and deferred payment), as discussed in Section 3.3.3.8 of this report.

A number of inclusionary housing programs allow capital improvements to be added to the resale value in addition to the increase in value based on an appreciation factor, as does the City's program. However, while the City only allows a depreciated value of capital improvements to be included in the resale price, some programs allow the full value of the capital improvements to be included. Allowing the full value of capital improvements to be included in the resale value provides an incentive for those owners who take the initiative to make improvements. However, capital improvements made many years prior to the resale of the unit could have significantly depreciated by the time the unit is resold. PAHC staff reports that they do not currently incorporate the value of capital improvements into the calculation of the current unit value at the time a unit is being refinanced, due to the staff time that would be involved in inspecting the units and determining the value of the capital improvements. We agree with this approach and are not recommending a change to this practice. Our discussion here relates only to the allowable resale price.

City staff has noted that the City's depreciated capital improvements provision encourages the homeowner to defer work until immediately prior to sale in order to recoup the full cost of the improvement. Since only recent improvements are captured in full, those owners who had made improvements throughout their ownership are not rewarded for doing so. Also, according to PAHC staff, a great deal of staff time has resulted from responding to BMR owner disputes with the determination of credits for capital improvements. One homeowner survey respondent indicated that the depreciation formula was a disincentive to making improvements and another stated that the requirement that the cost of eligible capital improvements be at least 1% of the unit purchase price was a disincentive.

Some jurisdictions limit the amount of capital improvements that may be added to the resale price. According to Santa Cruz County staff, their deed restrictions limit the amount of capital improvements that may be added to the resale value to a 10% increase in the resale price. According to Monterey County's May 2003 inclusionary housing program administrative manual, if the BMR unit has been maintained and is in decent condition, the County allows a home improvement credit in the amount of 10% of the purchase price to be added to the resale price, which is reduced by any costs to remedy any deficiencies in the unit. This resale value, including the capital improvements credit, is capped at a calculation of an affordable housing price. Monterey County staff reported that it is not clear that this provision has provided any incentive to BMR owners to maintain their units, since the appreciation rate based on the rate of increase in the AMI has provided adequate appreciation.

3.3.3.2 Refinancing Policy

The City's BMR deed restrictions currently recorded with the deeds for 71 of the 169 BMR units require that BMR owners obtain approval for any refinancing (referred to here as any new mortgage financing subsequent to the purchase of the property, including refinancing of the first mortgage and obtaining new equity mortgages or lines of credit) of the mortgage loans on the property. This provision is inappropriately included in the deed restrictions within the section entitled Procedure on Sale and reads: "Any encumbering of title of the Premises in connection with securing any financing or loan may only be accomplished with City's prior express written consent…"

According to City staff, prior to August 1993, there was no requirement to obtain City permission for refinancing, but since the requirement was added to the City's deed restrictions, no BMR owner has ever contacted the City to obtain such an approval. PAHC has undertaken efforts to remind the BMR owners of this requirement through a workshop offered to BMR owners and when owners call to check on the value of the BMR unit. A notable 50% of the homeowner survey respondents indicated that they had refinanced their original mortgage one or more times during their ownership of the BMR unit and another 14% indicated that they had taken out an equity line of credit, most of whom appeared to have obtained a line of credit between $40,000 to $125,000, which, depending on the balance on their first mortgage, could be far in excess of the current value of their BMR unit. If BMR owners did contact the City or PAHC, however, the City currently has no written policy regarding re-financings, such as the type of loans allowed, and procedures for granting consent, other than the maximum 100% loan-to-value requirement state on the PAHC BMR website.

If the equity in the BMR units were sufficient, then BMR owners with sufficient income and good credit would be able to obtain financing through refinancing their first mortgages, obtaining an equity mortgage or line of credit to cover needed repairs, rehabilitation and capital improvements. The City's current refinancing policy allows such financing up to the current value of the BMR unit. As discussed in Section 5 of this report, it would be important to restrict refinancing to new loans for which the principal would not increase over time, such as negative amortization loans, "option adjustable rate mortgages", and reverse equity mortgages.

3.3.3.3 Income Level of BMR Owners

In the most recent Housing Element adopted in 2002, the City revised the BMR Program, through its Housing Element Program H-36, to increase the affordability of a portion of the new BMR units to be affordable to households with incomes between 100-120% of area median income (AMI). However, according to City staff, even though the oldest units in the program were also sold initially to households up to 120% of AMI, the income levels of the existing BMR owners have declined significantly over time

As the preliminary homeowner survey results indicate, the income levels of the majority of the current BMR owners are extremely-low to very-low income. Households in these income categories tend to have very limited financial resources, little discretionary income, and limited or no potential for income increases, particularly for seniors or disabled persons on fixed incomes. For these owners, it can be extremely difficult to maintain the units, replace appliances, make capital improvements, or make even routine minor repairs without outside financial assistance. These owners are also less able to take on additional debt to finance rehabilitation or improvements.

Based on Anderson & Associates' experience administering inclusionary housing programs and that of the other jurisdictions contacted as part of this study, BMR buyers in income brackets equivalent to between 80 -120% of Palo Alto's AMI levels are more likely to make improvements, such as adding hardwood floors, appliance upgrades, and other kitchen and bathroom improvements, even if they will not receive credits for the improvements upon resale. While we are not recommending a change in the City's income level requirements for BMR units, we are noting that the change in City Program H-36 should result in better maintenance of these newer BMR units purchased by moderate-income households than those purchased by lower income households. By the same token, the shift noted in Section 3.2 of this report to a lower income level of buyers as existing units resell, due to the City's current resale pricing policy, could tend to result in a lower level of maintenance for units that have already resold through the program

3.3.3.4 Asset Limits

The City's current policy that limits the assets of BMR buyers could be one factor contributing to the lack of maintenance and improvement of the BMR units. BMR owners have competing demands for their liquid assets, such as medical bills, retirement savings, or major purchases such as an automobile, so that property expenditures for maintenance or improvements tend to be deferred. A more detailed discussion of asset limits is included in Section 5.1 of this report.

3.3.3.5 Construction Quality and Amenities in BMR Units

Program H-36 of the City's Housing Element requires that BMR units "be comparable to other units in the development." According to staff, this provision to provide comparable construction quality and amenities has been better enforced in the last ten to fifteen years than when the BMR Program was younger. The lower quality of construction in the older BMR units could contribute to a higher rate of deterioration in the BMR units than other units of the same age. Continued enforcement of this provision would be important to reduce future needs for property maintenance and improvements.

3.3.3.6 Inspection of BMR Units Upon Resale

The City's deed restrictions recorded for the City's BMR units allow, but do not require, the City to inspect the units at the time of resale. The inspector would determine whether there are any deficiencies in the units that need to be either remedied by the owner prior to the close of escrow or have sufficient funds set aside in escrow for the buyer to cover the costs of the repairs. This section of the City's deed restrictions related to the City's inspection of the unit includes the following language: "City or its designee shall have an opportunity to determine whether …any violation of applicable building, plumbing, electric, fire, or housing codes exist; …" The requirements for the condition of the unit upon resale are somewhat vague and do not include health and safety standards or that the unit meet required housing and building codes. The model letter provided to a BMR seller regarding the sales process, under a section in the Manual entitled Property Inspection, states "…the Real Property Division of the City of Palo Alto will report to you the findings of their inspection. Their report may note damages or deferred maintenance items for which you are responsible…. Please refer to your deed restrictions for a more detailed description of this procedure."

Current and past practice has been that the PAHC staff person and a City Real Property staff person inspect the unit to determine the need for minor repairs; the condition of obvious interior features such as walls, paint, and flooring; and whether appliances are working. The seller is required to order and pay for a termite report and the deed restrictions specify the work is the responsibility of the seller and buyer. The Real Property staff person then writes-up the deferred maintenance and repair that the seller is obligated to fix.

Neither the PAHC staff nor the City staff conducting the inspections have construction experience or building code expertise and the pre-sale review of a BMR unit's condition has never intended to equal or replace any type of professional inspection or investigation and neither the City nor PAHC provides any warranty or certification of a BMR unit's condition or compliance with building codes. According to City staff, the presale property visit and review conducted by PAHC and City staff is similar to the type of inspection that a rental property landlord would do when a tenant is vacating a unit.

The BMR buyer may obtain a professional property inspection and/or may purchase a home warranty plan. However, few BMR buyers have had their own property inspections done prior to purchase, either because they do not understand the value of them or have the resources to pay for the inspections or due to an assumption that the City's inspection is filling the same purpose. BMR owners may believe that the City inspection includes determination of code compliance since the write-up covers the other items listed in the deed restrictions or that it is comparable to a comprehensive property inspection that a buyer would get from an independent property inspector. One homeowner survey respondent suggested that the City communicate to the buyers that they "are at risk if they do not hire a home inspector." According to PAHC staff, they do orally advise BMR buyers to retain a home inspector and, while it is not included in the

BMR Program Manual along with other required real estate forms, they do require buyers to sign a California Association of Realtors “Buyer’s Inspection Advisory” form, which underscores the importance of doing full property investigation and recommends a list of items buyers should investigate. Real Property staff also recommended that a full property inspection be done by an outside party, but questioned how this would be funded.

Other jurisdictions, such as the City of Alameda and the City of Emeryville, have inspections of the interiors of the units conducted by both a City staff person and either a City building inspector or a contractor retained by the City who has both construction experience and knowledge of building and other code requirements. This is important to ensure that the BMR units are maintained in a safe condition, that any work on the property was done with required building permits, and that the property meets building code requirements. Examples of unsafe work that could be done without permits include enclosing porches or balconies with newly installed electrical wiring or installation of new water heaters.

3.3.3.7 Condition of BMR Unit Required Upon Resale

The BMR deed restrictions require that the owner either remedy any deficiencies noted in the condition of the unit in a manner acceptable to the City prior to the close of escrow or, at the City’s discretion, that funds be credited to the buyer through an escrow account to cover the cost of the needed repairs or replacement.

In the past, the City required that the seller make the repairs prior to close of escrow, but has recently experimented with the implementation of this provision so that sometimes the funds are held in a 30-day escrow account for the buyer to make the necessary repairs or replacements. The City does require that the seller be responsible for the cost of a termite inspection and for any Section I work identified in a termite report. City staff has noted that an increasing number of BMR resales have occurred when the BMR owner has died or is incapacitated, so that the resales are handled by family members who may be living out of the area and for whom it is difficult to have repairs or improvements made prior to the sale of the unit. City staff has also noted that in some cases the buyers may prefer to have work done (such as painting or replacing blinds, flooring or carpeting) after the sale so that they may select the color or finishes. However, by requiring the work to be done by the seller prior to the close of escrow, the City can ensure that the work is actually completed; whereas if the funds for the work go into an escrow account, the funds are merely returned to the seller if the buyer does not use them within the 30-day period. The City would also be able to ensure that the buyer is not burdened with having repairs or rehabilitation work done while they are living in the unit that was the responsibility of the seller. Buyers could be allowed to select colors and finishes even if the work is done prior to the close of escrow, but then it may be difficult for the seller to get the work done in a timely manner. If the City had an operating rehabilitation program, the staff operating the program could assist the seller or the seller’s family to complete the work.

The preliminary draft of the City's BMR homeowner survey includes comments from some owners reflecting their dissatisfaction with the quality of the units when they purchased them- that appliances, etc. have needed to be replaced soon after the purchase and they did not have the available funds to do the needed repairs or replacement. While information on the actual condition of those units is not available, if the units are not in good condition when the BMR buyers purchase the units, it would be more difficult to get them to maintain the units and require that the units be in good condition when they are resold. Real Property staff suggested requiring a home warranty for BMR buyers. An alternative solution would be minor home repair grants offered through a City repair/rehabilitation program.

3.3.3.8 City Grants and Loans Available to BMR Owners

The City currently has no program providing grants or loans to BMR owners to cover repairs, rehabilitation, or capital improvements. The City did operate a program funded through the City's Community Development Block Grant (CDBG) funds aimed at single- family market-rate homeowners. The program was discontinued in the early 1990's due to the lack of demand from low-income owners for the program. Since 2003, the City has allocated CDBG funds annually to a non-profit organization called Economic and Social Opportunities (ESO) to provide minor home repair services and make energy-efficiency and accessibility improvements for a limited number of households whose incomes do not exceed 60% of area median income. BMR owners that meet the income limits are eligible for these home repair programs. The Avenidas home repair service also provides discounted services for seniors. However, it appears that there is an increasing need for such a program for the BMR owners as this housing stock has now aged and a significant percentage (about fifty percent) of owners are very low income. Because many of the City's BMR owners do not have the income to support any additional debt or the assets to cover the cost of needed rehabilitation, the only financing option available to these owners would be deferred-payment loans through a City-funded loan program. Senior or lower income occupants also may need assistance in selecting contractors and overseeing the repair or rehabilitation work. However, the owners would need to have sufficient equity in their homes to support an additional loan.

Other jurisdictions have rehabilitation programs that provide zero-to-low-interest rate loans available to lower-income homeowners. Many of these programs also include grants for certain uses, such as minor home repairs, including appliance replacement; accessibility improvements; and paint. These funds could protect BMR owners who may be living in substandard housing by addressing health and safety issues, such as faulty wiring or heating systems, leaking appliances or bathroom fixtures, lead-based paint, or asbestos. By providing resources to lower income homeowners so that they may make repairs or improvements as they are needed, City-funded grants or loans can prevent larger, more expensive rehabilitation work later on resulting from deferred maintenance. PAHC staff noted that BMR units at resale have been in such bad condition that work needed to be done prior to showing the unit, not just prior to resale. City funds could assist the buyer so that units would be in marketable condition

when they put the unit on the market. To encourage owners to take advantage of these loans, the loans could be offered at a 0% interest rate. Even accrued interest at a low 3% interest rate could equal or exceed the owner's equity upon sale at the current allowable appreciation rates. One of the advantages of offering rehabilitation funds to homeowners is that the funds are revolving, i.e. once the funds are repaid they may be reused to assist a subsequent homeowner.

3.3.3.9 City Purchase and Rehabilitation of BMR Units

The City has purchased BMR units through the BMR Program Emergency Fund that were in danger of being lost to the program through foreclosure or to enforce the BMR program's owner-occupancy requirement. The City entered into a contract in November of 2005 with the City of Menlo Park to administer the rehabilitation of two units acquired in mid-2005 as a result of such litigation. The City of Menlo Park administers several low volume Rehabilitation Loan Programs and a First Time Homebuyers Loan Program with a one-person rehabilitation program staff.

This approach requires substantial funds upfront to cover the cost of purchasing the property, the property holding costs, the rehabilitation costs and is very labor intensive for City staff, even with contracting the rehabilitation work management to an outside entity. Depending on the outcome of this project and whether the City of Menlo Park is interested and has the staff capacity to provide ongoing services to Palo Alto, Menlo Park staff may be a candidate to carry out subsequent rehabilitation efforts and/or administer a City-funded rehabilitation program. Since the timing of resales cannot be predicted, the City can't ensure that it would have sufficient funds to cover the demand at any given time. If the City had an operating rehabilitation program, such rehabilitation work could be done while the property is in private ownership. The funds to cover the cost of the rehabilitation would be revolving funds, which could eventually, be used for another homeowner.

3.3.3.10 Ongoing BMR Owner Education

The homeowner survey provides information on the BMR owners' understanding of the BMR program requirements. Of the survey respondents, 15% indicated that they were not aware that the future sales price of their home would be adjusted if they make improvements, and another 31% indicated that they were "somewhat" aware of that program provision. Survey respondent comments included a request for regular updates on the current value of the BMR units. One BMR owner commented that they had been paying property taxes based on the market-rate value of their unit for twelve years because the tax assessor was unaware that the unit had restrictions on its value. Another respondent requested assistance in preparing a BMR unit for resale.

In the past year, PAHC provided a BMR owner education workshop to 30 BMR owners covering the rights and responsibilities of BMR owners and has initiated newsletters to the BMR owners. Excerpts from the seminar materials have been placed on the PAHC website. PAHC staff plans to continue to improve the explanation of BMR rights and responsibilities at the time of purchase, to reinstate annual letters to the BMR owners, and to provide owners with regular updates of their BMR unit values. Some local jurisdictions with inclusionary programs provide a BMR value calculator on their City websites but this eliminates the City's opportunity to apprise lenders and remind BMR owners of the City refinancing policies and to obtain information on proposed loan amounts.

3.3.3.11 Housing Rehabilitation of BMR Units, a City Housing Priority

The City's current Housing Element and Consolidated Plan do not identify housing rehabilitation of the City' s BMR housing stock as a housing need or priority. This could be an impediment to City's ability to access outside sources of public funds.

The City is a direct recipient of Community Development Block Grant (CDBG) funds from the federal government. These funds may be spent for rehabilitation loan programs for lower income households. According to City staff, the primary impediment to initiating a new program is the lack of City staff capacity and the lack of an identified available outside entity to operate such a program. Once an experienced program operator is identified and local housing funds such as CDBG are allocated to the program, the City would rank more favorably in funding applications to outside funding sources that rank applications based on the City's leverage of funds, the program operator's rehabilitation program administrative experience, and the City's readiness to use funds if awarded.

3.3.4 Summary of Outside Funding Sources for Repairs, Rehabilitation, and Capital Improvements Grants and Loans

3.3.4.1 HOME Program

The HOME Program is federally funded but is administered by the State of California. The City of Palo Alto is not an entitlement jurisdiction for this program and must compete with other jurisdictions and with community housing development organizations (CHDO's) throughout the state. These funds are provided as a grant to local jurisdictions and as a loan to CHDO's. The maximum funding amount is $800,000 and the 25% funding match requirement was waived in the last funding round. In the last funding round, 50% of the funds were reserved for rural housing and 15% were reserved for CHDO's. This program typically has funding rounds in the fall of each year.

The funds may be used for first-time homebuyer programs, owner-occupied housing rehabilitation programs, rental rehabilitation and/or acquisition programs, and rental assistance

programs. The homebuyer programs may include up to $10,000 in funds for rehabilitation. Owner-occupied rehabilitation programs that assist owners whose principal residence is in need of repairs or improvements to meet federal, state, or local building codes are eligible. Funds may not be used to refinance existing debt. These funds are loans that then may be deposited into a City-controlled HOME account. The funds may cover administrative costs including up to 2.5% of the funds for general administrative expenses, up to 24% of the HOME loan for Owner-Occupied Rehabilitation and, 14% of the HOME loan for First Time Homebuyer activities. The funds are available to assist lower income households.

A local public entity receives extra points for having a housing element in substantial compliance with State Housing Element law. Applications are ranked based on experience operating affordable housing programs, prior experience operating the same type of program to be funded, community need, and adequacy of program guidelines, for owner-occupied rehabilitation programs, community need points are granted based on poverty level of homeowners and age of housing stock. Based on data provided in the HOME Notice of Funding Availability, Palo Alto would rank poorly in terms of poverty level, but could receive the highest ranking in the state based on age of housing stock, which would represent 250 points out of a possible 1,050 for the age of units factor alone,

3.3.4.2 California Housing Finance Agency HELP Program

The California Housing Finance Agency (CalHFA) Housing Enabled by Local Partnerships (HELP) Program provides unsecured, deferred payment loans to local government agencies at a 3% simple interest rate. These loans have a maximum 10-year term. The maximum funding amount is $1.5 million and is limited to one activity or program per application. The funds may be used for locally determined affordable housing activities and priorities, including affordable housing development, acquisition, rehabilitation, and preservation. While the program allows flexibility in use of funds, the proposed use must be identified as a local housing need or priority in a local government agency’s adopted plan. Program administration costs are not an eligible use of funds. There are two funding rounds each year, in the spring and fall.

Applications are ranked based on the following criteria: the affordability of the assisted units (in terms of length, depth, and amount), maximization of benefit (in terms of number of units assisted, the amount of HELP funds expended per unit, and the number of persons benefiting from the HELP program assistance), implementation readiness (in terms of the applicant’s experience operating the proposed program, whether the programs are already in place, and whether the programs have the authorization necessary to proceed), and the amount of leverage funds provided. Priorities are given to applications for homeownership activities that assist households with incomes up to 100% of area median income and to applications from local government entities whose Housing Element has been approved by the State.

The City applied for funds through the CalHFA HELP Program in September of 2002 for funding for a proposed assessment loan program but the application was denied, according to CalHFA, based on the City's application not ranking as competitively as others in the areas of "maximization of benefit" and "implementation readiness". With some restructuring of a City application, these funds may be obtainable. First of all, the City is in a better position to rank more favorably because it now has a Housing Element approved by the City and certified by the State. The City could rank more favorably in terms of program readiness, if it had a rehabilitation program already operating and funded through another source such as CDBG or if it had a commitment from an experienced rehabilitation program operator to administer a proposed City rehabilitation program.

3.3.4.3 Workforce Housing Reward Program

The State of California has a funding program, the Workforce Housing Reward Program, designed to reward local jurisdictions that have approved new affordable housing development, have made significant progress in meeting their regional housing needs, and are in compliance with State housing element law. The funds are not provided on a competitive basis; they are available to all local jurisdictions that meet the eligibility requirements. The program provides grants on a per-bedroom basis for all newly constructed rental and ownership residential units affordable to very-low and low-income households- up to $1,750 per bedroom for very-low income and up to $1,200 per bedroom for low-income units. The local jurisdiction must have a housing element in compliance, have submitted a housing element annual progress report to the State in December of 2005, have issued building permits for the eligible affordable units in 2005, and obtained the land use approvals for the qualifying units on or after January 1, 2004. These funds can be used for the construction, rehabilitation and acquisition of capital assets, such as traffic improvements, parks, bike paths, libraries, police and fire stations, etc. The availability of these funds could then free up the local jurisdictions' funds allocated for other uses for affordable housing programs. The applications for these funds are typically available in December and are due in March.

3.3.5 Recommendations for Changes to Deed Restrictions and Procedures Manual to Encourage Maintenance of the BMR Units

Our recommendations for changes to and comments about the City's existing BMR program are as follows:

- Appreciation Formula in the Deed Restrictions
  - We recommend that the City adopt an appreciation formula that allows adequate appreciation to encourage owners to maintain and improve their units.
- Refinancing Policy in the Procedures Manual

- We recommend that the City adopt refinancing policies in its Policies and Procedures Manual, applicable to refinancing of the first mortgage loan or obtaining new subordinate financing or equity line of credits, that restrict the maximum combined loan-to-value to between 95-100% of the BMR unit's current home and price restricted value and prohibit loans in which the principal may increase over time, including negative amortization loans, option adjustable rate mortgages, and reverse equity mortgages.

- We recommend that the City adopt a performance deed of trust mechanism, as discussed in Section 4.1 of this report, to secure its deed restrictions so that the City will be contacted by potential new lenders prior to refinancing.

- We recommend that the City's deed restrictions be revised so that the title of the document refers to refinancing and that the requirement that any new financing of the property be authorized by the City be easily found in a separate clearly-headed section.

- Asset Limits in the Procedures Manual

  - We recommend that the City consider revisions to the asset limits as discussed in Section 5 of this report.

- Construction Quality and Amenities

  - We recommend that the City continue its practice of enforcing the requirement that BMR units be comparable in quality to market-rate units.

- Inspection of BMR Units Upon Resale in the Procedures Manual

  - We recommend that the City have inspections of the properties performed by a City building inspector, City staff or outside contractor with construction experience and knowledge of building codes.

  - We recommend that the City advise homeowners to obtain their own independent property inspection prior to resale and that, if the City inspections are not performed by an inspector with code compliance expertise, that the City advise the buyers that the inspection does not include a determination of compliance with applicable codes.

- Condition of the BMR Unit Required Upon Resale in the Procedures Manual

- We recommend that the City require that any deferred maintenance be completed prior to the close of escrow and that repair grants and rehabilitation loans be available to the owners to fund the work.

- City Repair/Rehabilitation Program Providing Grants and Loans

  - We recommend that the City adopt a minor home repair grant program and a deferred-payment, zero-interest rate rehabilitation loan program for BMR owners.

- Ongoing Owner Education in the Procedures Manual

  - We recommend that the City or its program operator, PAHC, continue and expand its efforts to remind and inform BMR owners of the provisions under the current and any newly-adopted deed restrictions.

- Identification of Housing Rehabilitation of BMR Units as a City Need and Priority

  - We recommend that the City revise it's adopted housing plans (the Housing Element and the Consolidated Plan) addressing affordable housing needs and priorities to include repair and rehabilitation of BMR units as a housing need and priority for the City.

3.4 Major Special Assessments for Capital Repairs and Increasing Monthly Homeowners' Association Dues

This section includes a summary and evaluation of the City's existing BMR Assessment Loan Program, identifies potential sources of funds, and evaluates alternative techniques for handling homeowners' association special assessments and increases in monthly homeowners' association dues.

3.4.1 Background of City's Existing BMR Assessment Loan Program

The City of Palo Alto's BMR program, established in 1974, is one of the oldest BMR programs in the state of California. The oldest ownership units in the BMR program, built in 1975, are now 30 years old; with 105 of the existing 169 BMR units, built prior to 1985, at least 20 years old. According to City staff, with the exception of the eight duplex units, all of the BMR units are governed by a homeowners' association (HOA). However, in some developments, the HOA exists mainly to maintain common private access lanes and small areas of common landscaping. In other developments, the HOA is responsible for all exterior structural maintenance in addition to pools and spas, extensive landscaping, and/or underground parking.

While initial BMR prices are calculated based on affordability to those buyers within a designated income band, as monthly homeowners' association dues rise over time, BMR owners whose incomes have not increased comparably have difficulty making the higher monthly homeowners dues payments. According to City staff, the typical $300 to $400 monthly HOA dues are very difficult for BMR owners on very low, fixed incomes to pay. Another common problem facing many owners of older condominiums is the lack of adequate homeowners' association reserves to cover foreseeable and unforeseeable necessary capital expenditures for repairs and capital improvements and the subsequent major special assessments that must be used to fund the repairs and augment the reserves. According to City staff, special assessments have ranged from $9,000 to $26,000 per unit in four projects affected to date. According to the September 9, 2002 staff report to the City Council and the Ordinance adopted on September 9, 2002, for BMR owners with low incomes and/or limited liquid financial assets, these large mandatory special assessments can mean that they have fewer or no financial resources to maintain their units, that they may be forced to sell their homes, or that they may be unable to make their payments and risk going into default on their mortgage loans. This would mean that the City would be at risk of losing a part of its valuable limited affordable housing stock. City staff report that this has not occurred so far. According to City staff, some owners had to dip into their retirement savings or delay retirement to pay an assessment. Others were able to refinance at a lower interest rate and thus absorb the assessment into their first mortgage without increasing their monthly costs. A few took out equity lines of credit as a stopgap solution.

In 2001, City staff was contacted by BMR owners in two condominium developments, the Abitare and Redwoods, for financial assistance in paying the major special assessments. The 117 unit Redwoods condominium complex at 4250 El Camino Real levied a series of three special assessments over two and a half years from July 2001 to December 2003 totaling $20,005 per unit equally applied to all homeowners in the project to cover a $2.34 million project to repair or replace rotten exterior wooden stairways and walkways. The owners were given three options: pay the special assessments in one or two lump sum payments or make monthly installment payments including interest at an 8% interest rate over varying time periods from 12 to 60 months depending on the size of the assessment. For example, the main $1.6 million assessment required installment payments of $277 per month over 60 months. According to City staff, extensive legal research was done on whether the assessment would be prorated equally or by a unit's proportionate share of the total square footage. The final decision, according to City staff, was that the cost had to be split equally over the 117 units because it pertained to common areas equally used by all units.

The Redwoods development contained 12 BMR units. In the September 9, 2002 staff report to the City Council, City staff stated, based on a survey of the BMR owners, of whom 10 responded, and on personal communications with BMR owners, that very low and low income BMR owners typically did not have the financial resources to increase their housing costs or obtain financing. The staff report indicated that at least 6 of the BMR owners were very low income and 3 were low income.

In the Abitare condominium development, built in 1985, the homeowners' association levied a major special assessment for a $1.155 million project to repair walkways, decks, and stairways damaged by extensive dry rot and water intrusion. The special assessments ranged from $21,800 to $26,400 per unit, based on unit square footage and were due in three installments over a four-month period. The project included 9 BMR units. The September 9, 2002 staff report noted that three of the BMR owners placed their units up for sale, but for personal reasons unrelated to the assessment.

In a response to the large assessments in these two projects, the City Council adopted an emergency assessment loan program in September 2002 intended to provide financial relief for the BMR owners while protecting the City's BMR housing stock.

The City's Housing Element adopted in December of 2002 included preservation of Palo Alto's older housing stock to maintain the City's limited supply of affordable housing as a goal in Goal H-2; maintenance of, and addition to, the existing number of BMR units (including rental and ownership) as a policy in Policy H-9; and the creation of the BMR Program Emergency Fund to assist BMR owners with low income and limited assets that are facing hardships due to substantial mandatory special assessments for repairs to common areas as an implementing program in Program H-28.

3.4.2 Evaluation of Existing City of Palo Alto BMR Assessment Loan Program

3.4.2.1 City of Palo Alto BMR Assessment Loan Program Summary

On September 9, 2002, the Palo Alto City Council adopted program loan terms for an emergency assessment loan program, with direction to staff to finalize the program eligibility criteria, select a loan program administrator, and administer the emergency loan program. The stated goals of the program were to prevent loss of BMR ownership units and to provide emergency assistance to BMR owners facing serious hardships paying major special assessments. City staff developed the program eligibility criteria based on the direction provided by Council, which were incorporated into a package of twenty-one program forms and documents, including a five-page program description; a four-page process summary; a 14 item application checklist; a four page application with an additional employment income worksheet, a household income worksheet, and a credit report authorization form; loan disclosures; escrow instructions; and loan documents.

As of October of 2005, the City has funded a total of three loans through the BMR Assessment Loan Program- two loans in the amount of $26,409 each to Abitare BMR owners and one loan for $20,005 to a Redwoods BMR owner. Two of the borrowers were extremely low income, one of whom was disabled and one was low income. Two borrowers were employed. Only one other BMR owner submitted a prescreening application for the program but did not proceed with a final application.

According to City staff, other projects with recent substantial special assessments are the Hamlet in 2003 with six BMR units being assessed $17,434 or $11,899 depending on unit type and size and Baron Square with five BMR units assessed $8,826 in fall 2002.

City staff reported that one owner contacted the program about a pending major special assessment. The results of the homeowners' association survey could provide additional information regarding future demand for program funds. After funding the three program loans, approximately half of the initial $150,000 originally appropriated for the assessment loan program was unused.

The current BMR Assessment Loan Program parameters, based on the materials provided to Anderson & Associates for review include the following. It is important to note that these program parameters were derived from the various forms in the program materials; the parameters in bold text are not included in the program description dated May 2004 provided for review.

- **Loans are available for homeowners' association special assessments, or a combination of assessments over a five year period, that total at least $10,000 and that are for assessments primarily for substantial capital improvements or major repairs**;

- Maximum loan amounts are limited to the total sum of the mandatory special assessments but no more than the portion of the special assessments that would cause the borrower's housing costs to exceed 30% of the borrower's gross income;

- Loans are only available to BMR owner-occupants who have been in compliance with the BMR Program requirements during their entire ownership, including owner-occupancy; no unauthorized rentals; no unauthorized transfers of title; unless corrected; and, if applicable under the deed restrictions, no past refinancing without the City's permission;

- Priority is given to applicants whose housing costs exceed 30% of their monthly income, who are unable to obtain other financing, and do not have serious credit problems;

- Priority points are assigned through a detailed point system to applicants with the lowest income, with the fewest assets, and who are unable to be gainfully employed, including disabled, elderly or retired applicants;

- The combined loan-to-value of existing loans at time of application is limited to 95% of the current BMR value, not including capital improvements or special assessments;

- The loans are available at a 3% simple interest rate, as a deferred payment loan, due on sale, transfer, refinancing**, or in 30 years**;

- Loans are secured by a recorded deed of trust;

- The City may require that existing equity loans or lines of credit be paid off or subordinated to the City's loan (per the Program Loan Terms and Requirements revised May 2004); and

- The City may require that other legal documents be recorded (per the Program Loan Terms and Requirements revised May 2004).

3.4.2.2 Effectiveness of the City's BMR Assessment Loan Program

3.4.2.2.1 Program Goals/Evaluation Criteria

The goals of the Assessment Loan Program stated in the August 6, 2001 and September 9, 2002 staff report were to prevent loss of BMR ownership units and to provide emergency assistance to BMR owners facing serious hardships paying major special assessments. Staff

has developed a program, given the limited funds and staff resources available, designed to address the most pressing need for loan funds for the largest special assessments for BMR owners for whom paying the assessments would be impossible or a severe hardship. As stated in the staff report, the City's preference would be to utilize an outside contractor to administer the program given City staff's limited capacity in terms of time available and lending expertise. A great deal of staff time has been spent to develop the extensive program materials and to process loan applications.

In addition to examining the effectiveness of the City's program in achieving its stated goals, there are additional criteria by which an effective program could be evaluated, some of which may be in conflict with each other. These goals include: security for the City's loan to ensure repayment, ease of administration to reduce administrative costs and staff time and to better assist loan applicants, equal access to program funds/non-discriminatory implementation, ease of use by the applicants and their mortgage brokers/agents, and incentive to record revised deed restrictions with performance deed of trusts to better enforce BMR program provisions.

3.4.2.2.2 Program Constraints

1. Funding

   To prevent loss of BMR ownership units and provide emergency assistance to all BMR owners for whom it would be an undue hardship or impossible to pay major special assessments, adequate funds would need to be available to address the need. Program materials clearly stated that applications would be prioritized and that adequate funds were not available to fund all eligible applications. Section 3.4.3 below discusses possible sources of funds for the program, as requested by the City.

2. Program administration

   In the September 9, 2002, City staff report, staff discussed the lack of adequate single-family real estate and lending expertise within the City or PAHC staff and recommended contracting with an outside entity such as a local jurisdiction currently operating a rehabilitation or homebuyer assistance loan program or, preferably, a local lending institution, such as a bank or credit union. As staff noted, the feasibility of utilizing a local jurisdiction would depend on whether the jurisdiction had excess staffing capacity to operate such a program. The advantage of contracting with a lending institution is that the lender could process the applications for outside financing concurrently and may be able to refinance the applicants first mortgage, consolidate other high interest debt into loans with more favorable loan terms, or obtain other outside financing that would eliminate the need for the City loan.

City staff attempted to negotiate a contract with Palo Alto Community Credit Union (PACE) to process and underwrite loan applications at a very reasonable fee of $250 per application. Other lenders who could serve as program operator for the City may have concerns similar to those raised by PACE.

The City could also explore the possibility of other potential lenders to administer the program, with which the City has an established relationship or has a demonstrated commitment to serving lower income borrowers, such as lenders on PAHC's referral list for the BMR buyers or lenders participating in other mortgage or homebuyer programs offered by local jurisdictions, including the Mortgage Credit Certificate program or the Santa Clara County Housing Trust Fund program.

Retaining an outside program operator would greatly reduce City staff time necessary to operate the program. If the eligibility requirements were simplified and more similar to the underwriting performed by institutional lenders using conventional lending programs, which typically have income limits, debt-to-income limits, and loan-to-value limits, it is more likely to find a willing program operator at a reasonable cost. In this discussion of the eligibility requirements, we are not suggesting that an outside program operator have the authority to approve City loans but only to do the eligibility determination and make recommendations to the City. The City's more favorable loan terms (low interest rate and deferred payment) would allow some borrowers to qualify for City loans who could not qualify for loans through lending programs through institutional mortgage lenders.

3.4.2.2.3 Evaluation of key program parameters:

1. Minimum special assessment threshold of $10,000.

   While a minimum special assessment amount of $10,000 is understandable given limited program funds and staff resources, BMR owners could face hardships with special assessments that are even $5000 to $10,000, if the owner's income cannot support monthly payments for a loan to cover the assessment and/or if the owner does not have the assets to pay the assessment amount and still have reasonable reserves. We recommend that the City consider lowering the minimum threshold to $5,000.

2. Maximum loan amounts for the portion of a special assessment that would cause borrower's housing costs to exceed 30% of the borrower's income

   This provision would be costly for the borrower to pay loan fees for a separate loan and is complicated for the both the City and conventional lender to administer. We recommend that this provision be eliminated.

3. Loans not available to those who have obtained unauthorized mortgage financings

Given the limited funds available to the program, the City has chosen to limit City funds to reward those program participants that have complied with the program requirements. PAHC has recently improved its efforts to inform and remind BMR owners of their responsibilities under the BMR program, but it is not clear how adequately these requirements were explained to or understood by BMR owners at the time they purchased or throughout their ownership. In the past, owners were sent an annual letter or newsletter, reminding them of the BMR ownership requirements and informing them of recent developments in the BMR program. According to PAHC staff, the annual letter to owners was discontinued sometime in the late 1990's or early 2000's. In 2004, PAHC provided a workshop attended by 30 of the 169 BMR owners, which covered their rights and responsibilities through the BMR program. According to PAHC, efforts to hold additional workshops for the remaining owners have been unsuccessful due to lack of interest on the part of the remaining owners. PAHC has also begun sending owners an annual newsletter that discusses developments in the BMR program and reminding BMR owners of the BMR regulations, such as those pertaining to transfers to children, living trusts, refinancing, and valuation of the BMR units. Thirty percent of the homeowner survey respondents indicated that they were unaware of any requirements under the BMR program related to refinancing; however, they may have purchased prior to 1993 when this provision was added to the deed restrictions. The requirement that BMR owners obtain City authorization prior to obtaining any new mortgage loans is not clearly presented in the deed restrictions, as discussed in Section 4.2 of this report, and there are at least 15 different versions of the City's deed restrictions. In terms of assistance with special assessments, we recommend that BMR owners not be penalized who were understandably unaware of this requirement.

According to City staff, no BMR owner has ever requested authorization from the City prior to obtaining new mortgage financing since the provision was first included in the City's deed restrictions in 1993. However, PAHC reports that one to two dozen owners contact PAHC annually to request a calculation of the current value of their unit in connection with refinancing applications. The homeowner survey indicated that over 50% of the respondents had refinanced their first mortgages since they purchased and another 14% indicated that they had taken out an equity line of credit. Presumably, the percent of BMR owners who have refinanced including equity loans and lines of credit would be even higher than 50%. The City may conduct a title search of all BMR ownership units, which would provide data on the number of such units that have refinanced, but at this point it is not clear how many of the 71 BMR owners were required to obtain City permission. However, according to data provided by the City, seventeen of the thirty-three, or over half, of the BMR owners with substantial special assessments had deed restrictions that required them to obtain City approval prior to obtaining new financing. As a result of the requirement that applicants for special assessment loans not have unauthorized financing, many BMR owners may not be

eligible for the program funds. The City has already waived this requirement in order to provide one assessment program loan. However, since it is a stated requirement in the program description, other BMR owners would be discouraged from applying for the funds.

Since the basis for the City's concern about unauthorized re-financings is the potential for over-financing the BMR units, the program requirement that combined loan to values not exceed 95% of the BMR unit value already addresses this problem. Some refinancings are actually beneficial to the BMR program if they reduce the interest rate on the first mortgage, convert an adjustable rate mortgage to a fixed rate loan, or eliminate a negative amortization loan. Other re-financings may have been used to do capital improvements to the property or to cover necessary medical expenses so that the owner is able to remain in the unit.

The Program Description does state that equity loans or lines of credit could be required to be repaid as a condition of the City's loan. Given these considerations, we recommend that the prohibition of previous unauthorized financings be eliminated as a condition of eligibility for an assessment loan from the City.

4. Priority for Applicants with Housing Costs in Excess of 30% of Income

   The program gives priority to applicants whose housing costs exceed 30% of their gross monthly income. While the rationale for this priority is to provide loans to those applicants with the greatest need, it also means that City loans could be given to those most likely to go into default on their existing loans. The housing cost ratio is roughly comparable to the lender's standard "front-end debt-to-income ratios". The lender will also establish a limit on housing costs plus any other monthly installment debt payments, which is called the back-end, or total, debt-to-income ratio". Conventional loan programs for first-time or low-to-moderate income buyers have total debt-to-income ratio limits of 45%. One of the program loan recipients had a total housing cost of 78% of the monthly income. At this level, the borrower could be at serious risk of defaulting on the existing amortized loans. We would recommend that the City establish a maximum total debt-to-income ratio limit and consider eliminating the minimum requirement that housing costs exceed 30%, particularly for those in the lowest income categories.

5. Requirement that borrowers be denied by mortgage lender

   The Program Description states that the applicant is required to: 1) apply for both refinancing of their first mortgage and a second mortgage or line of credit and 2) have been denied or informed in writing that they are ineligible to obtain financing without their monthly housing costs exceeding 30% of gross monthly income. First of all, since the City does not direct them to obtain City authorization prior to applying for this

refinancing, the program appears to be encouraging BMR owners to violate this BMR requirement. Secondly, while it is important that the applicants have attempted to obtain financing from a mortgage lender, generally, mortgage brokers or lenders will not process an application and/or charge loan application fees for those clearly not eligible for financing due to inadequate income, limited assets, limited equity, excessive debt, and/or credit issues. Even if a loan application has been submitted to their underwriting department and the applicant does not appear to be eligible for financing, lenders are hesitant to issue denials in writing. Because this requirement is difficult or impossible to meet, those most in need of City assistance would not be eligible to apply. Thirdly, since conventional loan programs do not establish a maximum housing cost ratio, or front-end debt-to-income ratio, of 30%, their underwriting would not indicate the maximum loan available at no more that 30% of housing costs. This appears to be a requirement with which it would be very difficult for the borrower to comply. And lastly, due to variations in the City deed restrictions and the lack of a City policy allowing refinancing up to the current value of the unit plus the amount of special assessments, this City requirement appears to require some applicants to pursue an option that is not available to them.

6. Priority Eligibility Point System

Staff developed an elaborate point system to prioritize applications in anticipation of demand for the program in excess of the available funds. The current priority system allocates points for various categories including ability to be employed.

If priority is intended to go to those with the least ability to pay a special assessment, the determination of priority could be based on the amount of income and level of assets, regardless of the source of income or employment status, and could be determined based on income and level of assets alone, without the other categories.

If the goal of the program is to avoid financial hardship for the neediest BMR owners, this could be determined simply by prioritizing based on income and assets with only a few categories. The City's decision to give priority to elderly and the disabled could be incorporated into such a priority system. For example, the first priority group could be extremely low-income elderly and disabled with no more than a certain amount of assets, the second priority could be all other extremely low-income owners with no more than a certain amount of assets, the third priority could be very low-income elderly and disabled owners with no more than a certain amount of assets, and the fourth category could be all other very low-income owners with no more than a certain amount of assets. If the City's intent is to not provide funds to moderate-income households, program eligibility could be limited to lower income households, which include extremely low, very low and low-income households. If the program is able to obtain sufficient funds to meet the demand, these priorities could be eliminated and funds made available to those in

certain income categories, such as extremely low and very low income with a limit set on assets.

The current priority point system, with the documentation required to determine eligibility in the various categories involves more staff time to administer and is more complicated, difficult to understand, and time consuming for the applicant. We recommend fewer and simpler priority categories.

7. Loan Due in 30 Years

   While not stated in the Program Description including the loan terms section, the program loan documents require that, if the borrower has not sold, transferred, or refinanced during the 30-year term, the principal amount of the loan and the deferred 3% interest must be paid at the end of the 30-year term. This represents a balloon payment for the borrower and could cause a hardship or force the owner to sell the property if the owner is unable to refinance. Typically local government deferred payment loans are forgiven at the end of 30 years, on the basis that adequate public benefit has been achieved from maintaining the affordability of that period of time. Other deferred payment loans include phased loan forgiveness terms. We recommend that the loans be forgiven after 30 years, but if not, that this information be disclosed to the applicants in the program description and clarified in the truth-in-lending disclosure.

8. Requirement that Equity Loans or Lines of Credit be Repaid or Subordinated

   Typically lenders already on title would not subordinate to a new loan and go into a lower lien position, so that the only option available to owners with equity loans or lines of credit would be to repay such loans to obtain a special assessment loan from the City. While the subordination of the City's assessment loan to existing financing heightens the risk to the City, the requirement for existing loans to subordinate to a new City loan does not seem feasible and we recommend that it be eliminated.

3.4.2.2.4 Evaluation of program implementation process

1. Equal Access to City Funds

   According to City staff the City sent information about the assessment loan program to the BMR owners in the Redwoods and Abitare developments and to one representative in Barron Square and the Hamlet developments, but not to all BMR owners in other developments to apprise them of available funds through the program. While a few owners evidently are aware of the program and have been able to obtain funding from the program, other owners could maintain that they were equally or more in need of the funds and that it was not fair that they were not informed about the program and,

therefore, did not have the opportunity to access these public funds. To avoid this situation, the City could inform all BMR owners of the program and the level of funds available, with a clear system as to who would have first priority for the funds.

At least one of the loan recipients participating in the program did not meet the written minimum program requirements; however, the owner filed an appeal explaining special personal circumstances demonstrating a hardship situation. If exceptions are made to these written minimum thresholds, owners could legitimately claim that they had an equal or greater need for the funds but were led to believe that they were not eligible for them. The best approach, to avoid any perception of discriminatory use of program funds, is to apprise all BMR owners of the program and make funds available to all applicants within stated program eligibility requirements and priorities.

2. Simplification of Income Determination Process

The following is a sample of revisions that could be made to simplify the process to make the program more accessible to applicants and reduce staff time to implement the program.

- The determination of income from assets could be based on an assumed interest rate, such as 2.5 % used by the State CalHome Program of the amount of funds reflected in one recent statement of accounts, rather than a review of 12 months of statements for all accounts to calculate the actual interest income received in the past year.

- Self-employment income could be based on a two-year average of net income reported on the prior two-year's federal income tax forms, consistent with the lending industry practice.

- Wage income could be determined from applicant pay-stubs and prior year's W-2's, rather than obtaining Verification of Employment from the employer.

It would be appropriate to have the lender acting as the program operator to calculate housing costs, debt-to-income ratios, loan-to-value, since these tasks are already part of the lender's standard underwriting process and would only be duplicated by the City. However, a lender has a financial incentive to complete a transaction in order to receive loan commissions on a concurrent refinanced first mortgage, regardless of whether the applicant meets the City's eligibility requirements. To ensure that City funds are used to assist those that the City has prioritized, it may be worth having the City or its agent determine that the applicant meet the City's income and asset eligibility requirements.

3. Security for City Loan

   While the program currently requires that a request for notice of default or sale be recorded for liens senior to the City's loan in a rider to the City's deed of trust, the rider does not specify who is responsible for doing so. We recommend that the City include recordation of a Request for Notice of Default or Sale in the City's escrow instructions to the title company.

3.4.2.2.5 Evaluation of program materials

If the City is interested in making the program more user-friendly, the program materials could be simplified and made easier to understand. The application materials currently are lengthy and require a great deal of documentation from the applicant.

The program forms include a five-page program description; four-pages that include two different process summaries; a 14 item application checklist; a four page application with an additional employment income worksheet, a household income worksheet, and a credit report authorization form; loan disclosures; and loan documents. We recommend that there be a program description for applicants and lenders that is no more than a couple of pages and that the process description be no more than one or two pages. The application could be the standard loan application used in the lending industry that the applicant would already have completed to pursue funding through a mortgage lender. Since the City or program operator will be calculating the applicant's income and assets, the applicant only needs to disclose and provide documentation of all the income and assets, which would eliminate the need for the applicant to complete detailed income calculation worksheets. If the program priorities were simplified, the amount of documentation required would be greatly reduced.

Some of the information in the program materials appears to be internally inconsistent. For example, while the program description states that the current combined loan to value of existing financing may not exceed 95% of the current BMR value; there are other references to financing that exceeds 95% of the current BMR value. The minimum requirement that applicants be in compliance with all BMR requirements in the deed restrictions may be confusing since it does not specify what those requirements are and since there are so many different versions of the City's deed restrictions.

There is also information that is not included in the program description that is critical information for applicants and lenders in evaluating various financing options. For example, the program description does not state that loans may be retroactive for special assessments that have already been paid by the BMR owner that the special assessments must total $10,000 over a five-year period and must be primarily for capital improvements, nor that existing second mortgages or lines of credit may have to be repaid.

3.4.3 Potential Sources of Funds

A number of potential funding sources that are available for other affordable housing activities are not available for a special assessment loan program. According to City staff, Community Development Block Grant funding is not available for this purpose. State CalHome Program funds are anticipated to be fully expended in the current funding round. Begin Program funds are limited to new construction. The Federal Home Loan Bank AHP Program is only available for affordable housing purchases. Since HOME program staff has not responded to questions regarding whether special assessment program loans are an eligible use under the program, it is not clear that HOME funds would be available for the City's BMR Assessment Loan Program.

As the threat to BMR long-term affordability posed by special assessments becomes better known and as more jurisdictions are forced to deal with this issue as their BMR condominium units age, more funding sources may become available in the future. At this time, however, potential funding sources appear to be limited and may mean that only locally generated City housing funds are available for the City's BMR Assessment Program. Two possible funding sources are presented below.

3.4.3.1 California Housing Finance Agency HELP Program

The California Housing Finance Agency (CalHFA) Housing Enabled by Local Partnerships (HELP) Program provides unsecured, deferred payment loans to local government agencies at a 3% simple interest rate. These loans have a maximum 10-year term, at which time the loan becomes due in full. The maximum funding amount is $1.5 million and is limited to one activity or program per application. The funds may be used for locally determined affordable housing activities and priorities, including affordable housing development, acquisition, rehabilitation, and preservation. While the program allows flexibility in use of funds, the proposed use must be identified as a local housing need or priority in a local government agency's adopted plan. Program administration costs are not an eligible use of funds. There are two funding rounds each year, in the spring and fall.

Applications are ranked based on the following criteria: the affordability of the assisted units (in terms of length, depth, and amount), maximization of benefit (in terms of number of units assisted, the amount of HELP funds expended per unit, and the number of persons benefiting from the HELP program assistance), implementation readiness (in terms of the applicant's experience operating the proposed program, whether the programs are already in place, and whether the programs have the authorization necessary to proceed), and the amount of leverage funds provided. Priorities are given to applications for homeownership activities that assist households with incomes up to 100% of area median income and to applications from local government entities whose Housing Element has been approved by the State.

The City applied for funds through the CalHFA HELP Program in September of 2002 but the application was denied, according to CalHFA, based on the City's application not ranking as competitively as others in the areas of "maximization of benefit" and "implementation readiness". With some restructuring of a City application, these funds may be obtainable. First of all, the City is in a better position to rank more favorably because it now has a current Housing Element approved by the City and certified by the State. At the time the City applied for funds previously, program guidelines had not been finalized and the program had not yet begun operating. Now that the City is already operating its BMR Assessment Loan Program, an application for HELP funds would rank more favorably.

Contracting with an outside entity with lending experience would also improve an application's ranking in terms of lending experience. With the information provided in the City's homeowner survey of the percent of BMR owners that are extremely low and very low income, the City could improve its ranking in a future application in terms of depth of affordability by committing a portion or all of the HELP funds to extremely low and very low income households. If the City obtains information through its homeowners' association survey on the number and size of past and future special assessments, the City will be better able to document the City's need for the funds and ability to disburse the funds within required program deadlines.

3.4.4 Alternative Mechanisms for Handling Homeowners' Association Special Assessments and Increases in Monthly Homeowners' Association Dues

Anderson & Associates surveyed jurisdictions with older inclusionary housing programs to obtain information about mechanisms other jurisdictions have used to deal with substantial special assessments and rising homeowners' association dues that impact BMR owners. The 2003 report by the California Coalition for Rural Housing and the Non-Profit Housing Association of Northern California entitled Inclusionary Housing in California: 30 Years of Innovation, identifies 14 jurisdictions with inclusionary programs that are at least twenty years old, established in 1985 or earlier. While these inclusionary programs were adopted in the 1970's or early 1980's, most did not have condominium ownership units completed until after 1985. Only six jurisdictions (City of Monterey, Monterey County, Morgan Hill, Santa Cruz County, Sunnyvale, and Santa Barbara County) indicated that their programs included condominium ownership units that were at least 20 years old.

Of all the jurisdictions surveyed, only three jurisdictions (Menlo Park, City of Monterey, and Sunnyvale) indicated that they had encountered problems with major special assessments imposed on BMR owners. In each of the three jurisdictions, only one condominium development was involved. County of Monterey staff reported that the County has explored the possibility of limiting homeowners' association dues increases on new developments. They reported that their efforts were unsuccessful because they attempted to impose restrictions on developers after the homeowners' associations were already established and recommended that such efforts be attempted earlier in the development approval process. Others reported

that they included special assessments in the price of the BMR units upon resale. None indicated that they provided any funds to assist the BMR owners. The City of Emeryville has operated two special assessment loan programs described below.

3.4.4.1 Loan Program Administered by Mortgage Broker/Lender

City of Emeryville Special Assessment Programs

The City of Emeryville Redevelopment Agency (Agency) has implemented two Special Assessment Loan Programs in response to major special assessments imposed by homeowners' associations in two condominium developments in Emeryville, the Watergate and the Emery Bay Village developments. In 1999, the City was approached by owners in the Watergate development who had received Agency First Time Homebuyer Program loans available to low-to-moderate income, first-time homebuyers purchasing market-rate units in Emeryville. Many of these borrowers were lower-income households or seniors on fixed incomes who did not have the financial resources to pay the special assessments. In the Watergate development, owners were faced with assessments ranging from $4,600 to $7,400 that they were required to pay in full in three installments over a one-year period. The owners were also paying homeowners' association dues between $254 to $404 per month.

The Agency adopted the Watergate Special Assessment Program in December 1999 and applications were processed and loans funded in January of 2000. The Agency offered the loans at a 6% simple interest rate, amortized over 5-10 years, depending on the borrower's ability to make the monthly payments. No fees were required upfront from the borrowers since the total fees of approximately $575 were included in the loan. The fees included the application fee of $300 and fees to cover the appraisal, the credit check, the title policy, title and recording fees, and the loan servicing set-up fee. The Agency established a maximum combined loan-to-value limit of 97% of the value of the property, required that the Special Assessment loans only be subordinate to a first mortgage and an Agency second mortgage, and required that borrowers be low-to-moderate income, owner-occupants.

While the Agency allocated $670,000 in funds to cover loans to all of the 100 First Time Homebuyer Program loan recipients in that Watergate development and First Time Homebuyer Program loan recipients were given priority for the funds, only 9 of the applicants ultimately used the Agency funds. Many applicants did not meet the program requirements that the borrowers be low-to-moderate income, owner-occupants, while others were able to obtain outside financing. The program loans funded totaled $51,300, ranging in size from approximately $5,100 to $6,100 including loan fees, with an average monthly payment amount of $108. All of the 9 loans have been now been repaid in full.

In 2004, owners in the Emery Bay Village condominium were faced with major special assessments ranging from $24,883 to $40,509. The owners were required to either pay the

assessment in full or pay monthly installments through financing offered by the homeowners' associations at a 7% interest rate over 10 years with monthly payments ranging from $289-$470 per month. In response to a request from the Emery Bay Village homeowners' association, the Agency adopted the Emery Bay Village Special Assessment Program. These loans were offered to all low-to-moderate income owner-occupants with a requirement that their monthly housing costs and other monthly installment debt (the debt-to-income ratio) not exceed 50% of their monthly income, that the combined loan-to-value not exceed 97%, and Agency loans only be subordinate to a first mortgage or an Agency loan. The loan terms were a 3% simple interest rate, amortized over a 10-15 year period. The loan fees for these loans totaled $957, including the $400 application fee, and were included in the loans. Many applicants had housing costs and other debt that exceeded the program debt-to-income ratios, while others were able to obtain outside financing. Of the applicants, only five were eligible and these loans were funded within three months after the program was adopted. The loans ranged in size from $25,840 to $41,466, including fees, totaling $146,150 in Agency funds.

In both programs, the Agency needed to establish the program quickly in order to provide funds to the applicants prior to the deadline to pay the special assessment so that borrowers did not incur penalties or the costs of taking out alternative financing. The programs were both established and all loans funded within a few months from the requests from the homeowners' to provide Agency funding. The Agency adopted very simple program requirements that were communicated to all owners in the developments in a one-to-two page flyer. Since the City contracted out the program administration, virtually no City staff time was required to operate the program other than to fund the loans. The City utilized Anderson & Associates to set up the programs and a mortgage broker to process the applications and perform the loan underwriting. Anderson & Associates' total time for setting up each program was approximately 80 hours. The mortgage broker had an established track record of hundreds of mortgage transactions in conjunction with the Agency and had demonstrated professional integrity and a commitment to working with lower income buyers. The broker charged a $300 fee in 1999 and a $400 fee per application in 2004, which was paid by the borrowers.

Emeryville Special Assessment Programs

Name of development	# of loans	Loan sizes	Total funded	Loan terms	Loan-to-value limit	Debt-to-income limit	Average monthly payment	Loan fees
Watergate	9	$5,108-$6,134	$51,300	6%, amortized, 5-10 years	97%	none	$108	$575
Emery Bay Village	5	$25,840-$41,466	$146,146	3%, amortized, 10-15 years	97%	50%	$201	$957

The Emeryville special assessment programs differed from the Palo Alto program in that there were sufficient redevelopment agency funds available to address the need, that the program was available to households with incomes up to moderate income, and the units were market-rate units. However, the program was also successful for the following reasons:

- Sufficient equity in the properties (because the units had no deed restrictions on appreciation) and a clear refinancing policy by the City allowed owners who could support an amortized loan to obtain alternative financing in the regular commercial lending market;
- The mortgage broker who administered the program greatly reduced the administrative costs to the Agency;
- The simple eligibility requirements greatly reduced administrative costs for the Agency.

3.4.4.2 BMR Appreciation Formulae

As discussed in Section 3.2 and Section 3.3 of this report, the BMR Program's current appreciation rate in the City's deed restrictions does not provide enough equity to provide incentives, or to cover financing necessary, to ensure that the units are maintained as the units age or to cover mandatory homeowners' association special assessments. If the City adopts an appreciation formula that allows greater appreciation of the value of the BMR units and existing BMR owners were given the option to record new deed restrictions with the higher appreciation formula, existing BMR owners could have sufficient equity over time in their units to cover special assessments.

A number of inclusionary housing programs allow special assessments to be added to the resale value in addition to the increase in value based on an appreciation factor, as does the City's program under some versions of the City's deed restrictions. On September 9, 2002, the

City Council considered adding the full value of major special assessments to the resale price of the BMR units. City staff reports that the City Attorney ruled that all BMR owners would be allowed to add the full value of major special assessments to the resale price of their units even if this provision is not included in that owner's version of the recorded deed restrictions. This is important so that all BMR owners could obtain financing to cover the costs of mandatory special assessments, if they are aware of this ruling.

3.4.4.3 Relationship of Appreciation Formula and Ability to pay Special Assessments

If the equity in the BMR units were sufficient, then BMR owners that could meet commercial lenders standards (income, debt level, credit, etc.) would be able to obtain financing through refinancing their first mortgages or obtaining an equity mortgage or line of credit to cover mandatory special assessments. According to City staff, the City Attorney's ruling allows a combined total of mortgage financing up to the current value of the BMR unit plus mandatory special assessments. It would be important to restrict refinancing to new loans for which the principal would not increase over time, such as negative amortization loans, option adjustable rate mortgages, and reverse equity mortgages. A City loan program would still be needed for owners who could not afford to refinance and pay off additional debt.

3.4.4.4 City Homeowner Survey Results

Section 3.3.2 reviews preliminary results from the City's 2004 survey of the BMR homeowners. A final draft of the survey was not available so that final survey results could be incorporated in this report. Data on the BMR owners' financial status derived from the 124 owners responding to the survey (approximately 73%) relevant to this discussion includes:

- 87% of the owners were low-income households, including 25% of the total respondents in the extremely low income category, 30% in the very low income category, and 32% in the low income category,
- 48% of the households included a person aged 60 or older,
- 28% of the owners indicated that their income had decreased since they had purchased their BMR unit,
- 6% indicated that their income had remained the same,
- 27% of the owners expected their income to decline within the next five years.

Seventy-two percent of the respondents indicated that their homeowners' dues went up more than they expected, 31% indicated that it was a hardship to pay their monthly homeowners' association dues, and 31% indicated that it had been a hardship to pay their major special assessments. One respondent commented that the monthly dues had increased from $75 per

month to $406 per month during their 29 years of ownership. At least 65% of the respondents indicated that they had to pay special assessments. While some reported that they had paid special assessments of $27,000-$30,000, City staff has indicated that the largest special assessment, to their knowledge, was $26,400. Eighty-six percent indicated that they could not pay a special assessment between $0 to $5,000 without causing great hardship; while 11% indicated that they could not pay a special assessment of any amount. One respondent commented that he/she had to take money out of a 401(k) to pay for the special assessment. Sixty-three percent indicated that the most they could pay per month for a special assessment was between $0- $100 per month. Other respondents indicated that they planned to sell because they could not afford the special assessments.

Comments from various owners included the following recommendations: making owners/buyers more aware of the association fees and the potential to increase significantly; requiring that BMR owners receive a discount when dues increase; requiring that monthly dues and special assessments be based on square footage, not per unit; requiring that special assessments be based on resale value, and making City funds available to cover special assessments. One respondent commented that his/her unit was 535 square feet, yet he/she pays the same monthly association dues as owners of larger market-rate units and pays the same special assessment amount as units that are 1,800-2,000 square feet. Consequently, based on size of the unit, the BMR owners are paying a disproportionate share of the monthly dues and special assessments, while, because of their generally much lower incomes, assets, and the restricted value, are less able to afford these expenses. One respondent recommended that the City's assessment loan program should be available to all BMR owners, not "with 40 different qualifications that only two unit owners can qualify for…."

3.4.4.5 City Survey of Homeowners' Associations

The City drafted a survey for the homeowners' associations to obtain information on the following: the amount of the monthly homeowners' association dues, the method for assessing the monthly homeowners' association dues (based on square footage, number of bedrooms, etc.), past and anticipated increases in monthly dues, the amount of any special assessments, the method for assessing any special assessments, the special assessments payment terms offered by the homeowners' association, the history of special assessments, and future anticipated major special assessments from the homeowners' associations. The draft survey was not provided to Anderson & Associates for review prior to dissemination. The City reports that several months of efforts to obtain responses from the management companies retained by the homeowners' associations have been generally unsuccessful. This information may more easily be obtained directly from homeowners' association boards. Subsequent to the City's attempt to obtain from the management companies, City staff compiled information on past homeowners' associations dues increases and major special assessments paid by BMR owners. However, this information was not provided to Anderson & Associates prior to preparation of this section of the report.

This information would be useful: 1) to determine the need for City special assessment program funds in the future and 2) to document demand and ability to draw down funds within required funding deadlines for applications for funds for the City's Assessment Loan Program from an outside source.

3.4.4.6 Developers Requirements Related to Homeowners' Association Dues and Special Assessments

City staff reports that they explored the feasibility of requiring developers to restrict the way that homeowners' association dues and special assessments are assessed for BMR owners. City staff concluded that very little can be done to limit the amount and share of homeowners' associations dues for BMR owners in new developments and that, because this is governed by the development's CC&R's, even less can be done in existing developments. City staff also noted that while it may be legally possible to discount monthly dues and assessments based on the BMR unit values, it would probably have the negative unintended result that the market-rate unit owners would feel that the BMR owners were not paying their fair share of costs that are generally to maintain equally used common areas.

City staff reports that in the 800 High Street development, the City did require the developer to apportion monthly homeowners' association dues and assessments based on the square footage of the units, to the extent allowed under state law Because all but one of the 10 BMRs at 800 High are smaller than the market-rate units with the same number of bedrooms, staff felt that this was important. However, only some costs could be apportioned by unit square footage, while most of the costs had to be allocated equally to all the units. According to City staff, the resulting monthly homeowners' association dues for the BMR units, based on February 2005 figures, ranged from $381.57 for the one-bedroom BMR units to $439.75 for the three-bedroom BMR units, with the market-rate units' monthly dues ranging from $433 to $500 per month. However, City staff noted that the City has been more strict in requiring that BMR units types and sizes match those of the market-rate units, so there would be less basis in the future for requiring variations in homeowners' association dues and assessments based on the smaller square footage of BMR units.

Developers represent another potential source of funding for special assessments. If securing a funding source for special assessments is a major objective, then the City could consider having each developer deposit funds into an "Assessment Account." These deposits would fulfill part of the Developer's BMR or in-lieu fee requirement. The City could then use these pooled funds to make special assessment loans.

4. DEED RESTRICTIONS

4.1 Enforcement of Program Requirements with Deed Restrictions

This section presents provisions in model deed restrictions used by other jurisdictions and recommends provisions for City of Palo Alto's deed restrictions to prevent and enforce violations of the BMR program requirements regarding owner-occupancy of the BMR unit, prohibition of rental of the BMR unit, prohibition of transfer of title of the BMR unit without City review and consent, refinancing, and financing over the BMR unit value. This section will include references to specific deed restrictions used by jurisdictions that have unique provisions.

Some of the specific new deed restriction language to be incorporated in the City's deed restrictions will depend on new BMR program policy or revisions to existing BMR program policy made by the City as a result of this study. Other new text in the deed restrictions will depend on the extent to which the City chooses to include specific versus more general provisions for a particular policy in the recorded deed restrictions or only in the Policy and Procedures Manual (Manual) for the BMR program. More general language allows for more flexibility as the City's BMR policies change over time without having to continually revise the deed restrictions. Fewer versions of the deed restrictions reduce the staff time necessary to implement the various versions of the deed restrictions. On the other hand, specificity in the deed restrictions reduces staff time spent negotiating or considering appeals from applicants. Detailed provisions can also provide a clearer description of program requirements for the BMR program participants. For example, Menlo Park refers to current City code and/or BMR guidelines, including amendments that may be adopted from time to time, whereas other jurisdictions include general language requiring local jurisdiction approval, which allows the local jurisdiction to implement that requirement based on current adopted policies or program implementation precedents. Once City staff has compiled a comprehensive list of the BMR program policies and have updated their BMR program procedures, they could more easily decide which policies and procedures to incorporate into the Manual or into both the Manual and the deed restrictions.

Since this section is focusing on provisions in the deed restrictions, it will not cover other important mechanisms to prevent violations of the City's BMR program requirements, such as homebuyer education prior to the purchase and ongoing homeowner education about BMR requirements and enforcement.

4.1.1 Discussion of General Deed Restrictions Format

- Title of the deed restrictions

  The title of the deed restrictions can be an important mechanism to alert BMR buyers and owners, lenders and title companies that the document includes requirements related to owner-occupancy, rental, transfer, and financing, by including specific

references in the title. **Many lenders are aware that local jurisdictions record resale restrictions but are not aware that the deed restrictions also include requirements prior to the sale.**

- Summary or disclosure of key provisions

  Some deed restrictions clearly present the BMR requirements in the deed restrictions either through a summary of owner requirements at the beginning of the document or as a brief one or two page summary in a signed disclosure or declarations document that is either a separate document or an attachment to the deed restrictions. Many deed restrictions have the owner agree to a number of specific certifications, acknowledgements, or warrants. The County of Santa Cruz has both a table of contents and a signed disclosure summary of the key provisions at the beginning of the deed restrictions document. City of Pleasanton has an excellent one-page summary of the BMR deed restriction provisions as an attachment to the deed restrictions that is signed by the BMR buyer. City of Walnut Creek includes a clear summary of key provisions of the deed restrictions near the front of the document. Generally, these disclosures include a statement that the owner understands the BMR requirements. The advantage of these types of disclosures is that there is a record that the owners have stated in writing that they were aware of the BMR requirements and, if these are signed separately and recorded, there is a public record that can be retrieved at a later date.

- Separate clearly-label sections

  The use of separate sections with clear headings is also a useful mechanism to ensure that BMR buyers, BMR owners, lenders and title companies are aware of key provisions in the deed restrictions.

- Clear language accessible to the layperson

  To the extent possible, simple, clear language in the deed restrictions will make more BMR buyers and owners aware of the requirements of the BMR program. The City of Santa Cruz's deed restrictions are an example of terms that are presented clearly, in language that is relatively easy for the layperson to understand.

4.1.2 Owner-Occupancy of the BMR Unit

- Separate, clearly labeled section

  Well-crafted deed restrictions include this key BMR program requirement as a separate, clearly labeled section, under headings such as Owner Occupancy Requirement or Principal Residency Requirement.

- Definition

  The definition of owner-occupancy in deed restrictions is generally that the owner occupies the unit as the principal residence for between 10-12 months of the year. Some jurisdictions include a reference to the owner-occupancy requirement continuing through the duration of the ownership of the BMR unit. Some jurisdictions clarify that not only renting or leasing the unit but also leaving the unit vacant is a violation of the deed restrictions.

- Temporary waiver of owner-occupancy requirement

  Some jurisdictions allow a temporary waiver of the owner-occupancy requirement at the local jurisdiction's discretion and some specify acceptable reasons, such as sale of the property, illness, job relocation, sabbatical, etc. The City of Emeryville establishes a process for obtaining a temporary waiver of the owner-occupancy agreement, which is a written request at least 30 days prior to the temporary vacancy or rental. If BMR units are allowed to be rented, the deed restrictions specify under what conditions this would be allowed. Some jurisdictions allow the property to be vacant during the sale of the property (County of Santa Barbara).

- Monitoring Process

  Some deed restrictions include a monitoring process, requiring a signed affidavit or certification by the owner of continued owner-occupancy, under penalty of perjury, either annually by a certain date or in response to a periodic mailing by the local jurisdiction or provided at the request of the local jurisdiction. Some deed restrictions specify a deadline for the response to the monitoring request, such as within 10 days. The monitoring may require evidence of owner-occupancy, such as copies of utility bills, land-line phone bills, driver's licenses, etc. Such documentation is either required of all BMR owners or only requested if the City has reason to believe that the owner may be in violation of the deed restrictions, either through reports from outside parties or through monitoring of publicly-available information from the tax assessor's office. Monterey County includes the certification form as an exhibit to the deed restrictions. Sunnyvale requires that the BMR owner qualify for and obtain the homeowners' property tax exemption. Some deed restrictions leave the monitoring requirement general; requiring that the owner cooperate with the monitoring and provide any required certifications and other required documentation to determine compliance with the monitoring.

  The requirement for periodic owner-occupancy certifications has the advantage of reminding the owner of the owner-occupancy requirement. Since utility bills may be paid by the owner even if the owner does not occupy the unit, tax assessor data that indicate

that the owner has the same mailing address as the BMR unit address and that include the homeowner's exemption may be a better form of verification.

- Enforcement of violation of Owner-occupancy requirement

  Deed restrictions typically refer to violation of this requirement as a breach or event of default of the deed restrictions. Enforcement mechanisms are presented in subsection 4.2.6 below.

4.1.3 Rental of the BMR Unit

- Separate, clearly labeled section

  Some jurisdictions include this key BMR program requirement as a separate, clearly labeled section depending on whether rentals are allowed, under headings such as Rental of Unit or No Renting or Leasing of Home.

- Description of Rental Allowance or Prohibition

  Deed restrictions vary to reflect varying requirements related to rental of the BMR units. Some jurisdictions prohibit any form of lease or rental of the unit, in full/whole or in part. Others, such as the city of Emeryville, allow partial rentals, as long as the owner remains an owner-occupant, to provide stability for BMR owners as their housing needs change as household sizes and financial situations change over time, due to divorce, death of a household member, children becoming adults and moving away from home, need for live-in physical support or child care, etc.

  Other jurisdictions allow lease or rental of the entire unit either temporarily, for example, up to one year, or indefinitely, either in the case of a hardship (Monterey County, Santa Barbara County) or for specific reasons.

- Rental Requirements

  Rental of the BMR units is generally only allowed with the prior written permission of the local jurisdiction if the unit is affordable to, and occupied by, a household in a designated income category, such as very-low or low-income households. The local jurisdiction generally establishes the affordable rent levels and maximum incomes of the occupants, and requires that the renter occupants be income-certified by the jurisdiction, with annual certifications of the rents and the occupants' income required. Some jurisdictions, such as the County of Santa Cruz, specify that the owner must provide a copy of the rental agreement or lease to the jurisdiction (County of Santa Cruz, Sunnyvale).

- Enforcement of Violation of Rental Requirements

  Violation of this requirement is generally considered a breach or default of the deed restrictions. Monterey County requires the payment of excess rents over the allowable affordable rent levels to the county. In addition to other liquidated damages, Santa Barbara County requires that all rents collected in violation of the agreement be paid to the County. The City of Sunnyvale requires that a BMR owner who rents the unit in violation of program requirements: 1) forfeit all monetary amounts obtained, including actual or presumed rents, based on established market rents and 2) forfeit any appreciation from the date that owner-occupancy ended. Sunnyvale's provision related to presumed market rents would be easier to enforce given the difficulty documenting the amount of rent received and would provide a financial penalty if the unit was occupied rent-free or rented to a non-eligible tenant at an allowable rent. The appreciation forfeiture also would provide a strong disincentive if BMR units are allowed significant appreciation. Other enforcement mechanisms are presented in subsection 4.2.6 below.

4.1.4 Transfers of Title

The City's deed restrictions currently allows the following types of transfers of title without triggering the City's right to purchase: 1) by gift, devise, or inheritance to an owner's spouse or issue, 2) to a surviving joint tenant, 3) to a spouse as part of divorce or dissolution proceedings, and 4) to a spouse in conjunction with marriage.

- Separate, clearly labeled section

  Other jurisdictions generally include these provisions under a separate section entitled Permitted Transfers, Allowable Transfers, or Prohibited Transfers.

- Expanded list of allowable transfers

  Other jurisdictions provide an expanded list of allowable transfers, which may or may not require the jurisdiction's permission, including transfers: 1) to existing domestic partners or to domestic partners upon the death of the original owner or through termination of a domestic partnership (Monterey County, Pleasanton, Emeryville, Santa Cruz County), 2) into inter vivos trusts in which the owner is the beneficiary (Monterey County) and only if the owner continues to occupy the property (proposed in San Leandro), 3) in divorce proceedings only if they are court-ordered, and 4) to both natural and adopted children (Emeryville). Jurisdictions that allow domestic partners may include a definition of domestic partnership.

- Process for allowable transfers

  Most jurisdictions require written notice to the jurisdiction prior to transfer and may require that the new owners be income eligible, that notice be given to the jurisdiction within a certain number of days after an owner's death, that the new owner occupy the unit as the primary place of residence, and that the deed restrictions continue to run with the title. Some jurisdictions require that new deed restrictions be executed by the new owner(s) and be recorded, some with the term of the deed restrictions starting over.

- Enforcement of violations of transfer requirements

  Violation of the transfer requirements is generally considered a breach or default of the deed restrictions. Enforcement mechanisms are presented in subsection 4.2.6 below.

4.1.5 Refinancing/Over-financing

According to City staff, no BMR owner, potential lender, or title company has requested City permission prior to refinancing since the City's deed restrictions first included this provision in the August 1993 version of the City's deed restrictions. There are several potential problems when new loans are recorded on the property without the City's knowledge. The most common problem is over-financing for more than the restricted value of the BMR unit. Another problem is the potential for over-financing when refinancing with a type of loan that could increase over time, such as negative amortization loans, reverse equity mortgages, option adjustable rate mortgages, or some interest-only loans. The easy availability of equity line of credit loans made without regard to the BMR unit's restricted value is a common problem, as these loans are often used to consolidate consumer debt and are interest-only for the initial years. A third problem is that when BMR properties are refinanced without the City's knowledge, the Request for Notice of Default or Sale on the initial first mortgage may be removed from title and no Request for Notice of Default or Sale for a new mortgage lender is recorded. The result is that the City would not be automatically notified in a timely manner of the recording of a Notice of Default and/or a Notice of Sale. If the City is notified early, referrals to mortgage counseling services can be provided to an owner, if appropriate. If a foreclosure is inevitable, then the City has time to work with the lender and the BMR owner to either sell the unit directly to a new BMR buyer or for the City to acquire the unit to prevent its loss through foreclosure. Timely notice can avoid the need for the City to go to court to secure a last minute restraining order to halt a pending foreclosure sale.

- Recordation of separate deed restrictions

  Palo Alto's BMR deed restrictions have always been recorded as an exhibit to the grant deed and are not recorded separately. While the recording position with the grant deed has the advantage of ensuring that the deed restrictions remain prior and superior to any

initial or subsequent financing, it has the disadvantage that the deed restrictions do not usually appear on a preliminary title report to alert a potential lender, title company, or transferee to any provisions related to financing of the property or to the City's right to purchase at the BMR restricted price in the event of a Notice of (foreclosure) Sale.

- Performance deed of trust

  In our experience, even if the deed restrictions are recorded separately, a potential lender or title company may not read the deed restrictions to discover that the City requires approval prior to refinancing. However, lenders or the title agents handling the refinancing will contact the City to obtain permission if there is a deed of trust recorded on title, since the lender would require that the City agree to subordinate to the new first mortgage loan or request that the City subordinate to other mortgage loans or lines of credit. When contacted by the lender or the title company, the City then has the opportunity to: 1) inform the lender of the current BMR value and the City's refinancing policy, including any restrictions on the type of mortgage financing allowed, 2) require that a new Request for Notice of Default or Sale be recorded on the property related to the new loan, and 3) prevent the lender from recording a new loan without a subordination agreement signed by the City that specifies the maximum loan amount. To address this problem, local jurisdictions are now recording a performance deed of trust with the deed restrictions as an attachment or recorded separately. These documents are recorded either subordinate only to the first mortgage or, ideally, superior to the first mortgage loan. Local jurisdictions would generally draft their own subordination agreement approved by their counsel so that each lender's form of subordination agreement does not need to be reviewed by the appropriate staff or counsel.

- Reference to financing in the title of the deed restrictions

  Some jurisdictions include a reference to restrictions on refinancing or financing in the title of the document or at the very beginning of the document. This helps to apprise lenders that restrictions on financing are included in addition to provisions for the resale of the property.

- Separate clearly labeled section

  Other jurisdictions generally include these provisions under a separate section entitled Financing or Refinancing of Restricted Unit, Refinancing the Home, or Permitted Encumbrances and Refinances.

- City approval process

  Most jurisdictions require that any mortgage financing secured by the property be approved by the jurisdiction. Some deed restrictions specify the information that the owner is required to provide to the jurisdiction and require the jurisdiction to provide the current BMR value to the proposed lender within a certain time period. (Morgan Hill). Monterey County includes a subordination request form as an exhibit to the deed restrictions. Since such a form is likely to be revised over time, this is not recommended to be part of the deed restrictions.

- Definition of financing covered

  The deed restrictions generally specify types of loans that are required to be approved by the jurisdiction. Some jurisdictions define refinancing as only including a first and second mortgage (Monterey County), which would not include the multiple layering of mortgage loans currently typical of many transactions, such as those with CalHFA financing or down payment assistance program loans. Pleasanton has a preferable, more comprehensive definition of refinancing to include a new first mortgage, second or other mortgage, home equity loan, or similar line of credit. The City of Sunnyvale includes first mortgages and any second or subsequent loans, liens, or encumbrances.

- Loan-to-value limits

  Some jurisdictions set a limit on new financing at no more than the original first mortgage amount (Santa Barbara County), but more typically jurisdictions establish a combined loan-to-value limit of a certain percent of the current BMR value, typically between 90-100%.

- Restrictions on types of loans

  Some jurisdictions restrict the type of financing, such as requiring that the loans have a 30-year term and be fixed-rate loans, requiring certain debt-to-income limits, or prohibiting loans with negative amortization or balloon payments. Since the lending industry is constantly changing its loan products, this type of restriction may more appropriately be adopted as policy included in the program guidelines or administrative manual, rather than in the deed restrictions, although in general restricting any type of financing in which the principal increases over time would be a good idea.

4.1.6 General Enforcement Provisions

The City of Palo Alto's current deed restrictions lack specific language on procedures for declaration of a breach, timing for cures and specific remedies for enforcement. Well designed

deed restrictions typically identify specific provisions for which non-compliance would represent a breach or default of the terms and conditions of the agreement, establish a process for curing or enforcing a breach/default, and include various enforcement mechanisms. Generally, violations of the owner-occupancy, rental, transfer, and financing provisions are all specifically referenced as a breach of the agreement or as triggering an event of default.

The deed restrictions can establish a process for curing or enforcing a violation of the terms of the deed restrictions, including the notice to the owner of the breach of the deed restrictions, the action required to cure the breach, a deadline for the owner to cure the breach (generally 10-30 days with an extension that may be granted by the local jurisdiction), that the violation be cured to the satisfaction of the jurisdiction, and the remedies available to the jurisdiction if the breach is not cured. The County of Santa Cruz rescinds the owner's right to cure a violation in the case of repeated violations of the deed restrictions.

Many deed restrictions include standard general language to enforce a default of the provisions of the deed restrictions, such as "the City may exercise it's right of first refusal to purchase, may apply to a court of competent jurisdiction for specific performance under the terms of the deed restrictions, for an injunction prohibiting a proposed letting, sale or transfer in violation of the terms of the deed restrictions, for a declaration that the prohibited transfer is void, or for any other relief as may be appropriate." The following are other mechanisms used by other jurisdictions to enforce violations of the terms of the deed restrictions:

- right to purchase, to exercise right of first refusal, to sell, or to initiate foreclosure proceedings,
- right to take possession of the property and to do whatever is necessary to preserve the value and marketability of the property, increase income from the property, or to protect the security in the property (City of Sunnyvale),
- right to collect rents (County of Santa Barbara),
- right to recover any and all costs, including staff time, and attorney's fees incurred by the jurisdiction to correct or enforce of the deed restriction provisions, which may be either deducted from the proceeds from the resale of the property or obtained directly from the owner if a sale is not consummated (City of Sunnyvale),
- right to toll, or exact a fee from, an owner (County of Santa Barbara) or limit the appreciation (City of Sunnyvale) for any period that the deed restrictions are in default,
- right to recover any funds owner receives as a result of an unauthorized transfer or unauthorized rental (City of Sunnyvale),
- rights to liquidated damages owed to the local jurisdiction (County of Santa Barbara),

- civil or criminal prosecution for fraud (City of Santa Cruz, Sunnyvale), and
- covenants running with the land binding the owner and all successors, heirs, and grantees that apply during the term of the deed restrictions and the term of subsequently recorded deed restrictions.

4.1.7 Recommendations

We recommend that the City of Palo Alto make the following revisions to the City's deed restrictions to strengthen enforcement capabilities:

General Provisions

1. Record the deed restrictions separately on title, rather than as an exhibit to the grant deed,
2. Secure the deed restrictions with a recorded performance deed of trust in favor of the City,
3. Revise the title of the deed restrictions to include a reference to use, financing, transfer, and resale provisions,
4. Include a plain language summary disclosure as an attachment to the deed restrictions, both of which would be signed by the buyers,
5. Include clearly-identified separate sections,

Owner-Occupancy

6. Include a separate section defining owner-occupancy as occupying the BMR unit as a principal residence for 10-12 months of the year for the duration of the ownership of the BMR unit and specifically identifying leaving the unit vacant as a violation of this provision.
7. Include a process for obtaining a temporary waiver of owner-occupancy for specific reasons,
8. Include requirement that owner cooperate with the City's monitoring of the owner-occupancy requirement, maintain a valid homeowner's exemption for owner's property taxes, and provide any requested documentation to verify owner-occupancy,

Rental of BMR Units

9. Include separate, clearly-labeled rental section,

10. Include conditions under which BMR units may be rented and process for obtaining approval for such rentals,

11. Require that owner pay to the City an assumed market-rate rent for the period that units are occupied in violation of deed restrictions and that owner forfeit any appreciation of the unit during that period,

Transfer of Title

12. Include separate, clearly labeled transfer section,

13. Expand list of allowable transfers to include transfers to domestic partners and adopted children and into inter vivos trusts in which the owner is the beneficiary,

14. Include requirement that owners notify the City of allowable transfers, that new owners occupy the property and execute and record new deed restrictions, and that allowable transfers to owners who are not currently occupying the property be certified as income eligible BMR owners,

Refinancing/Over-financing

15. Include separate, clearly labeled refinancing section,

16. Require a new Request for Notice of Default or Sale to be recorded related to any new loans,

17. Define loans covered by this section to include any new mortgage loans, home equity loans, or line of credits,

18. Establish maximum loan-to-value limits of between 90-100%,

19. Include restrictions on types of loans for which the principal may increase over time,

Enforcement Measures

20. Identify violations of owner-occupancy, allowable rentals, allowable transfers, and financing provisions of the deed restrictions as breaches or events of default,

21. Establish a process by which owner is notified of breaches or defaults with specified process and deadlines to cure, and

Include enforcement measures identified in Section 4.1.6 that the City's legal counsel has determined are legally enforceable.

4.2 General Recommendations to Structure of Deed Restrictions

The deed restrictions for most BMR programs are currently comprised of at least two components: 1) a Resale and Restriction Agreement; and 2) a Deed of Trust and Security Agreement. Additionally, many programs include a City loan equal in amount to the difference between the BMR purchase price and the fair market value of the unit. The Deed of Trust secures both the City's loan and the requirements of the Resale Agreement.

To meet the objectives of Palo Alto's BMR program, we recommend that the City's deed restriction document be updated and revised to include two separate documents: 1) Resale, Transfer, Use, and Refinance Restriction Agreement and Option to Purchase; and 2) Deed of Trust and Security Agreement. The new form agreement would be standardized and used for all new BMR units.

As discussed in Section 4.1, it is important that the Resale Agreement have very clear, unambiguous section titles and be expressed in terms that are easy for a layperson to understand. KMA has a number of sample standard deed restrictions that we can share with the City's legal counsel. The section titles of one standard form are as follows:

Recitals;
Definitions;
Description of Property;
Buyer Certifications; Owner Occupancy Requirement;
Leasing of Property;
First Time Homebuyer Requirement
Maintenance and Insurance Requirements;
Restrictions on Resale of the Property;
Notice of Intended Transfer; Preparation of Property for Sale;
City Response to Owner's Notice of Intended Transfer;
Owner Acknowledgment of city response Notice
City Purchase Option
Determination of maximum Sales Price for City Purchase or Restricted Sale
Sale of Property by Owner if City does not Exercise City Option to Purchase
Payment to City of Excess Sales Proceeds
Defaults
Notice of Default and Foreclosure
Purchase Option Upon Default
Non-liability of the City
Restrictions on Foreclosure Proceeds
Restriction on Insurance Proceeds
Term of Agreement
Superiority of Agreement

Subordination
Refinance of First Mortgage
Nondiscrimination
Rights of Beneficiaries Under Deeds of trusts
HUD Forbearance Relief
Invalid Provisions
Controlling Law
No Waiver
Notices
Interpretation of Agreement
Exhibits – Legal Description of Property; Form of Owner Occupancy Certification; Form of Owner's Notice of Intent to Transfer; Form of Owner Acknowledgement of First City Response Notice; Form of Owner's Notice of Failure to Locate Eligible Purchaser; Form of Owner Request for City Subordination to Refinanced First Mortgage Loan

4.3 Summary of Recommended Changes to Deed Restrictions on Existing Units

Regarding the existing stock, we recommend that the City engage its legal counsel in an evaluation of the feasibility of modifying all of the executed deed restrictions. The objective would be to:

- Increase the permitted appreciation rate for establishing the resale price to enable the owners to fund improvements and assessments. We would recommend that the existing homeowners be offered the same appreciation rate as the newly constructed units.
- Standardize and modernize the deed restrictions, which will make them easier to implement and enforce. The deed restrictions should mirror the updated standard deed restrictions for newly constructed units;
- Establish occupancy and refinancing requirements;
- Have the City's regulatory agreement secured by a deed of trust.

Given that both the City and the BMR owners would benefit from this package of revisions, it is our hope that it will be feasible to go forward with updating all of the existing deed restrictions.

4.4 Impact of Deed Restrictions on Buyer Financing

FNMAE and CalHFA both offer attractive mortgage programs for BMR homebuyers. In order to access these funds, the City's deed restrictions must be approved by the institutions. The City has initiated discussions with CalHFA regarding changes that would be needed to the City's deed restrictions to make them compatible with CalHFA's requirements. It appears that it will not be too difficult to modify the City's deed restrictions to meet CalHFA's requirements as follows:

- Restrict homebuyers to first-time homebuyers;
- Prohibit the City from exercising its right to purchase except for the purpose of resale to a qualified homebuyer;
- Eliminate PAHC's or the developer's right to purchase the BMR property.

Based on our experience, it is standard that a "back and forth" process between legal counsel is required to craft deed restrictions that meet the lenders' requirements.

4.4.1 Summary of Sources for Downpayment Assistance Compatible with City Deed-Restricted BMR Units

This subsection of Section 4.4 summarizes potential new sources of downpayment assistance program funds that would be compatible with the City's deed-restricted BMR units. The state-funded CalHome Program is not included because funds are no longer available through this program and there is no way to predict if this program will be reactivated. PAHC is already under contract with the City to provide information on existing homebuyer assistance funds to potential BMR buyers. PAHC has disseminated information on homebuyer assistance available to homebuyers through the Housing Trust of Santa Clara County, the County of Santa Clara Mortgage $10,000 Downpayment Assistance Program, the Santa Clara County Mortgage Credit Certificate Program, and California Housing Finance Agency (CalHFA)'s deferred-payment loan programs.

4.4.1.1 HOME Program

The HOME Program, for non-entitlement jurisdictions such as the City of Palo Alto, is federally funded but is administered by the State of California. The City of Palo must compete with other jurisdictions and with community housing development organizations (CHDO's) throughout the state. These funds are provided as a grant to local jurisdictions and as a loan to CHDO's. In the last funding round, 50% of the funds were reserved for rural housing, 15% were reserved for CHDO's, and the 25% funding match requirement was waived. This program typically has funding rounds in the fall of each year.

Based on the July 29, 2005 Notice of Funding Availability (NOFA) in effect at the time of the preparation of this section of the report, HOME funds may be used for first-time homebuyer loan programs through the HOME program's American Dream Downpayment Initiative. The maximum grant amount to a city for downpayment assistance is $200,000. HOME-funded homebuyer loan programs may include up to $10,000 per unit in funds for rehabilitation. Note that the HOME Program also funds rehabilitation loans to homeowners, as described in Section 3.3 of this report. The funds are available to assist lower income households with incomes up to 80% of area median income. The downpayment assistance funds are required to be used for units with deed restrictions with at least a 5-15 year term depending on the amount of funds per unit. As HOME-funded loans are repaid, they may either be deposited into a City-controlled HOME account or returned to the State. Downpayment assistance loans may be offered to homebuyers at an interest rate between 0-3%, deferred-payment, for units with a maximum purchase price of $312,895. HOME funds may cover the City's general administrative costs up to 2.5% of the grant, or $5,000 for a $200,000 award, and first-time homebuyer loan processing costs up to 14% of the grant, or $28,000 for a $200,000 award.

A local public entity receives extra points for having a housing element in substantial compliance with State Housing Element law. Applications are ranked based on experience operating affordable housing programs, prior experience operating the same type of program to be funded, community need, and adequacy of program guidelines. For downpayment assistance programs, community need points (representing 450 of 1,050 possible points) are granted based on the percentage of homeowners under the poverty level in the city, the ratio between median sales prices and median income levels in the county, and the percentage of overcrowded owner-occupied units in the city. Based on data provided in the July 29, 2005 HOME NOFA, Palo Alto would rank poorly for downpayment assistance funds but would rank favorably for rehabilitation program funds from this funding source.

Note that subsequent to the preparation of this section of the report, a HOME NOFA included funds up to $1.5 million per project available for homebuyer loan programs for newly-constructed units, which could include up to $50,000 to cover administrative costs.

4.4.1.2 California Housing Finance Agency Housing Enabled by Local Partnerships (HELP) Program

The California Housing Finance Agency (CalHFA) Housing Enabled by Local Partnerships (HELP) Program provides unsecured, deferred payment loans to local government agencies at a 3% simple interest rate. These loans have a maximum 10-year term. The maximum funding amount is $1.5 million and is limited to one activity or program per application. The funds may be used for locally determined affordable housing activities and priorities, including downpayment assistance programs. While the program allows flexibility in use of funds, the proposed use must be identified as a local housing need or priority in a local government

agencies adopted plan. Program administration costs are not an eligible use of funds. There are two funding rounds each year, in the spring and fall.

Applications are ranked based on the following criteria: the affordability of the assisted units (in terms of length, depth, and amount), maximization of benefit (in terms of number of units assisted, the amount of HELP funds expended per unit, and the number of persons benefiting from the HELP program assistance), implementation readiness (in terms of the applicant's experience operating the proposed program, whether the programs are already in place, and whether the programs have the authorization necessary to proceed), and the amount of leverage funds provided. Priorities are given to applications for homeownership activities that assist households with incomes up to 100% of area median income and to applications from local government entities that have a Housing Element approved by the State. Applications are ranked more favorably for BMR units with longer-term resale restrictions, such as Palo Alto's 59-year resale restrictions.

In 2002, the City applied for funds through the CalHFA HELP Program to fund new City special assessment and BMR preservation programs. According to CalHFA, the application was denied, based on the City's application not ranking as competitively as others in the areas of "maximization of benefit" and "implementation readiness". However, a City application for downpayment assistance could be more competitive. First of all, the City is in a better position to rank more favorably because it now has a current Housing Element approved by the City and certified by the State. Also, the City would rank much more favorably for homebuyer program loans than the proposed new programs included in the previous funding application, in terms of program readiness, since its BMR ownership program has been operating successfully since 1974 and has an established tract record of handing transactions for over 169 units, including new and resale BMR units.

4.4.1.3 Federal Home Loan Bank's Affordable Housing Program (AHP)

The Federal Home Loan Bank of San Francisco's Affordable Housing Program (AHP) provides funds to member banks working in conjunction with non-profit organizations or local jurisdictions for grants to homebuyers to cover downpayment and closing costs and for homebuyer counseling to assist homebuyers with incomes up to 80% of area median income purchasing a principal residence. The member bank provides the first mortgage loans and is required to contribute reduced or waived fees, below-market-rate interest rates, relaxed underwriting standards, free homebuyer counseling, and/or a cash contribution toward closing costs. Twenty percent of the funds are reserved for ownership programs. The units being purchased with AHP assistance are required to be price-restricted units with restrictions for at least 5 years.

The program has funding rounds twice a year in April and October. Applications are ranked more favorably on the following criteria: developments that received land donations, projects/programs sponsored by a government entity or non-profit organization,

projects/programs with the highest percentage of units reserved households at the lowest percent of area median income, projects that provide housing for homeless households, and projects provided in conjunction with empowerment programs, such as homebuyer training or counseling. In 2005, the AHP awarded $360,000 in funds for downpayment assistance for low-income buyers purchasing BMR units in the Meadow Park development in Novato, a similarly high housing cost area.

4.4.1.4 Building Equity and Growth in Neighborhoods Program (BEGIN)

The state-funded Building Equity and Growth in Neighborhoods Program (BEGIN) provides funds for downpayment assistance for low-to-moderate first-time homebuyers. BEGIN grant funds are available to local jurisdictions that have reduced local regulatory barriers to, or provided incentives for, affordable ownership housing. The funds are available for newly developed units on a non-competitive basis over the counter while funds are still available. As of June 2005, $48 million in funds were still available for this program. These funds are available for deferred-payment second mortgages at a 1-3% interest rate, up to $30,000 per unit.

4.4.1.5 CalHFA Mortgage Programs

The California Housing Finance Agency (CalHFA) Affordable Housing Partnership Program (AHPP) provides below-market-rate interest rates on first mortgage loans in partnership with localities, including cities, that offer CalHFA-approved subordinate financing or grants for downpayment or closing costs. The lender provides low-interest rate mortgages to low-income buyers who must be first-time homebuyers unless they are purchasing in certain target areas and must be owner-occupants. AHPP is available in all areas of California. These low interest rate first mortgages are only available to buyers of BMR units with deed restrictions that have been approved by CalHFA.

CalHFA also offers subordinate loans to low and moderate income buyers that may be used in conjunction with CalHFA first mortgages and with City subordinate loans and BMR units with resale restrictions approved by CalHFA. These subordinate loan programs include High Cost Area Home Purchase Assistance Program (HiCAP); CalHFA Housing Assistance Program (CHAP); California Homebuyer's Downpayment Assistance Program (CHDAP); Extra Credit Teacher Program (ECTP) for homebuyers who work in eligible schools, many of which are located in Santa Clara County and are not required to be located in Palo Alto; Homeownership in Revitalization Areas Program (HIRAP); and School Facility Fee Down Payment Assistance Program (SFF), which provide deferred-payment, low-interest rate loans.

City staff is working with CalHFA to obtain CalHFA approval of the City's BMR deed restrictions. Until CalHFA has approved the City's deed restrictions, none of the CalHFA loans will be available to BMR buyers. In our experience, the CalHFA low interest rate loans have made a

critical difference in assisting interested BMR lower-income buyers to qualify for mortgage financing necessary to purchase a BMR unit.

5. BELOW MARKET RATE (BMR) PURCHASE PROGRAM IMPLEMENTATION

Section 5.1, Policy and Procedures Manual, BMR Public Information Materials, Waiting List, and Deed Restrictions, includes a review of the City's BMR Policy and Procedures Manual, public information materials about the BMR Purchase Program, the BMR Purchase Program waiting list, and the deed restrictions used in the BMR Purchase Program. The public information materials include the BMR "information sheet", the Waiting List Application, the Waiting List Application Update, the BMR Information Packet, materials about the program available on the Internet, BMR Purchase Program newsletters, and workshop materials. This section also includes recommendations to improve these materials.

Section 5.2, BMR Purchase Program Waiting List, Buyer Selection, and Applicant Screening Procedures, evaluates the City's procedures related to the waiting list, buyer selection, and applicant screening; provides waiting list, buyer selection, and applicant screening best practices in other inclusionary housing programs in the state of California; and makes recommendations to the City at the end of each of the three subsections. The discussion includes discussion of income limits, asset limits, gift limits, allowable sources of downpayment funds, minimum loan amounts, maximum loan-to-values, minimum and maximum housing costs, and other restrictions on mortgage financing.

Section 5.3, BMR Purchase Program Resale Procedures, evaluates the City's resale process, resale timelines, and use of real estate agents; presents the BMR program resales process best practices in other inclusionary programs in the state of California; and makes recommendations to the City.

The discussion in this Section 5 is based on the following BMR purchase program materials provided to Anderson & Associates for review in preparation of this study:

1. Materials provided by Palo Alto Housing Corporation (PAHC):

    - the Palo Alto Housing Corporation (PAHC)'s Policy and Procedures Manual for the Administration of City of Palo Alto's Below Market Rate Purchase Program (BMR) dated May 2003,

    - the BMR Housing Purchase Program 3 page "information sheet" entitled Below Market Rate (BMR) Housing Purchase Program dated 2/04,

    - the Waiting List Applicant Information Update form dated 7/05,

    - a resale BMR unit Information Packet for Prospective Buyers of 4250 El Camino Real, #A308, Palo Alto dated December 23, 2003, including 1) the Instructions for Completing Below Market Rate (BMR Unit Purchase Application dated 12/03 and 2) Application With Financial Statement dated 12/03,

- A new BMR units Information Packet for 800 High Street dated January 17, 2006, 1) the Instructions for Completing Below Market Rate (BMR) Unit Purchase Application dated 12/03 and 2) Application With Financial Statement dated 12/03,

- Waiting Lists as of 3/30/05 and as of 1/19/06,

- Portions of a sample file of a BMR resale in the Greenhouse II development in February 2003 (excluding personal financial information),

- workshop materials for workshops provided by Project Sentinel on April 22, 2004 (for BMR homeowners) and September 8, 2004 (for BMR waiting list applicants),

- Sales Procedures for New Below Market Rate (BMR) Ownership Units dated 1/7/05, and

- Below Market Rate Agreement for Condominium Project at 800 High Street dated January 29, 2003.

2. Materials provided by Palo Alto City staff:

   - Income Standards & Rent Limits for Affordable Rental & Ownership Housing in Santa Clara County- 2003, dated 4-7-03,

   - Updated Prices for New BMR Units memo dated April 29, 2005,

   - Table entitled Income Level of BMR Unit Purchasers as a Percentage of Area Median Income (AMI) at the Time of Purchase covering purchases from program inception in 1974 to June 2005,

   - Quarterly reports from PAHC to the City for periods beginning in January 2004 through December 2005,

   - Contract between the City of Palo Alto and PAHC for Below Market Rate Housing Program Administrative Services, and

   - Various emails, memos and legal opinions regarding program implementation.

3. Materials obtained from PAHC's website (materials dated 8/2/05)

   - Website text under two sections entitled Below Market Rate Purchase Program and Below Market Rate Property Owner Information, and

   - The Waiting List Application dated 7/05.

While typically program documents evolve over time, our discussion is based on the specific program materials provided for review (see dates of various program materials listed above). Some of the comments in this Section may no longer be applicable as program staff revises the program materials and as our recommendations are incorporated.

5.1 Policy and Procedures Manual, BMR Public Information Materials, Waiting List, and Deed Restrictions

5.1.1 Policy and Procedures Manual

5.1.1.1 The Purpose of the Policy and Procedures Manual

Palo Alto's Policy and Procedures Manual for the Administration of City of Palo Alto's Below Market Rate Purchase Program (BMR), dated May 2003, was prepared by Palo Alto Housing Corporation (PAHC), a non-profit organization that has administered the City's inclusionary housing program since its inception in 1974. The Policy and Procedures Manual, referred to in this section as the Manual, establishes the administrative policies and procedures for PAHC's implementation of the City's BMR purchase program.

The Manual is important because it is referenced in PAHC's contract with the City, in the BMR agreements between the City and developers of BMR ownership units and in guidelines provided to developers entitled "Sales Procedures for New Below Market Rate (BMR) Ownership Units". PAHC's contract with the City requires PAHC to "administer the sales of newly constructed units and resales of existing units in the BMR ownership program… in accordance with City policies, guidelines, the applicable deed restrictions and the Procedures Manual, prepared by PAHC, as accepted by the City." The language in the sample agreement between the City and a developer of BMR ownership units included a requirement that the developer "cooperate with the City, the BMR unit buyers and the City's program administrator as necessary in the sale of the BMR units, following the procedures in the BMR Program and Procedures Manual and deed restrictions."

Administrative manuals can serve different purposes depending whether the manual is providing information for developers of BMR units, for the BMR program administrator, for interested BMR buyers, for existing BMR owners, or a combination of these parties. A policies and procedures manual can be a useful tool by documenting and consolidating the policies governing the program and the procedures for various aspects of the program implementation, so that these policies and procedures can be implemented in a consistent manner. The manual may also function as a training tool for new program administrative staff and as a reference for existing staff implementing the program. The County of Monterey's May 2003 Administrative Manual for its inclusionary housing program is an excellent model.

Palo Alto's current version of the BMR Policy and Procedures Manual, dated May 2003, is an administrative manual for use by the PAHC staff administering the BMR purchase program. The approximately 200-page manual, including various program forms, is not designed to provide public information to developers, interested BMR unit buyers, or BMR unit owners.

5.1.1.2 Program Policies and Guidelines

Who establishes the policies and guidelines governing the BMR Purchase Program?

The Manual states that a BMR Committee of the PAHC Board of Directors interprets the program rules, establishes policy, grants exceptions to program policy, and makes recommendations for new program policies to City staff. It is not clear in the Manual whether the BMR Committee has the authority to adopt new policy or if all new policy is adopted by the City, based on recommendations from PAHC. According to PAHC and City staff, there is no clear delineation of who has the authority to adopt new policies for the BMR purchase program. According to City staff, this is the current process for adopting new program policy:

1. policy recommendations are developed jointly between PAHC and City staff and taken to the BMR Committee for consideration,

2. the BMR Committee then makes a recommendation to the City, and

3. if a change is adopted by the City, City staff informs PAHC of the new policy and directs PAHC to implement it.

We recommend that the Manual clarify the process for adopting new policy.

What policies and guidelines govern the BMR purchase program?

The governing authority for the BMR purchase program is Program H-36 in the City of Palo Alto's Housing Element adopted in December 2002. In addition, City staff provides other guidelines for the program through the Sales Procedures for New BMR Ownership Units, prepared for BMR developers, and through annual price and income guidelines for new BMR ownership units. While various program implementation policies have been adopted either by PAHC or by the City that govern the BMR purchase program, neither PAHC staff nor City staff were able to provide a list, summary, or compilation of the various policies currently governing the BMR Purchase Program. City staff did provide background materials and letters from the City Attorney on some program policies governing the BMR purchase program.

The 2003 Manual includes a description of the previous, but not the current, Housing Element Program H-36. The Manual also includes implementation policies related to applicant eligibility adopted between 1985 and 1995, but does not include such policies adopted since1995 or policies related to other areas of the program administration, such as parameters under which the units may be rented, allowable transfers, or allowable financing limits. The Manual also does not include revisions to key program policies including new formulas for calculating income limits for resale BMR units, asset limits, and gift limits and new household size requirements for different unit types. PAHC staff indicated that they have postponed updating the program manual until this report is completed and City staff indicated that they intend to compile a list of

BMR program policies and legal opinions from their files. For the purposes of discussion of the current BMR program policies and program parameters in this section 5 of this study, we relied on information off of PAHC's website and other program materials provided by PAHC that have not yet been incorporated into the Manual.

Incorporation of current policies and program parameters into the program Manual will be important to ensure that policies are consistently implemented from the time the policies are adopted. Ideally, the Manual would include a policies section of policies currently governing the program that would include a summary of the adopted policy, the adoption date, and the adopting entity (i.e. BMR Committee, PAHC Board, City staff, City Council) with reference to any background materials that would indicate the intent and relevant factors informing that decision.

We recommend that the Manual include information on the City's current policies and guidelines governing the program and that this information be updated as policies and guidelines are revised or new policies or guidelines are adopted.

How are policy decisions memorialized?

City staff reports that there is currently no consistent system for memorializing newly-adopted policy decisions. Some policy decisions are memorialized through a memo from City staff to PAHC, other policies are adopted more informally through email communications, and others are adopted in the form of legal opinions from the City Attorney. Ideally, the Manual would include written policy direction either in the Manual itself or referenced in the Manual.

5.1.1.3 Eligibility Guidelines and Program Procedures

What areas of program administration are covered by the Manual?

The Manual text currently covers eligibility guidelines, program administration (outreach and waiting list procedures, buyer selection procedures, and sales process for resale units), and the key provisions of the deed restrictions and includes thirty-three program forms and public information pieces, including the information packet and waiting list application, and the HUD Occupancy Handbook's, Manual 4350.3 REV-1, ninety-four page Chapter 5. Determining Income and Calculating Rent. Nine of the forms in the Manual are real estate forms developed by the California Association of Realtors. The Manual includes one version of the City's deed restrictions.

As any program evolves, the program materials change. When the Manual is updated, the Manual should include the current versions of program materials, such as the Information Packet and the Waiting List Application, and new program materials, such as the Waiting List Application Update.

The discussion in the Manual related to the escrow process could be expanded. While PAHC reports that they do obtain preliminary title reports, the Manual currently includes no reference to this. The escrow instructions in the Manual do not include removal of the seller's liens from the title. Preliminary title reports, which are provided at no charge by the title company, provide important information for review prior to preparing the escrow instructions to the title company. The Manual could include review of the preliminary title reports in the escrow procedures and could include escrow instructions that require removal of seller unpaid property taxes, unpaid homeowner association dues, or other liens prior to close of escrow. The current escrow instructions in the Manual direct the title company to record a Request for Notice of Default or Sale completed by the buyer. Since this is a critical document protecting the City from the potential loss of a BMR unit, we recommend that the program administrator prepare this document for submittal to the title company, rather leave that responsibility to the buyer or the title company.

Does the Manual reflect the current program parameters?

Based on information presented on PAHC's website, a number of key program parameters have changed since the Manual was last updated in May 2003, including the establishment of different income limits for buyers of new versus resale BMR units, a new method of calculating the income limits for resale units, new asset and gift limits, and new requirements for household size eligibility for different sized units. Ideally, changes to program requirements would be incorporated into the Manual as these changes are adopted.

What new areas of program administration could be covered by the Manual?

Ideally, the Manual could include sections covering implementation procedures for policies that have already been adopted (such as the rental of BMR ownership units, transfers of BMR units to heirs, prohibition of transfers of BMR units to trusts, maximum allowable financing, etc.). For example, the Manual could include a detailed two-page rental policy for BMR owners adopted by the City that predates the current Manual.

The Manual could also include sections covering implementation procedures for policies that that the City is considering adopting as a result of this study (restrictions on types of mortgage financing, continuing education of BMR owners, etc).

PAHC's contract with the City covers pursuing, in cooperation with the City, preservation of BMR units and compliance and enforcement by BMR owners with the provisions of the recorded deed restrictions. In Section 4.2 of this report, we make recommendations related to monitoring and enforcement. If the City adopts our recommendations related to annual monitoring, this could be covered in a section of the Manual.

Since an important part of our recommendations involves recommendations related to refinancing and over-financing, we recommend that the Manual include a section on how to implement these policies. For example, an extremely important task in implementing the refinancing policies that we are recommending, will have an important role in avoiding BMR units going into default or foreclosure, will be to record new requests for Notices of Default or Sale as each new mortgage loan is recorded on the title of a BMR unit. The Manual could also include a section on defaults and foreclosures to provide direction to PAHC staff in handling the notices that the BMR owner is in default on their financing or that the BMR owner is facing foreclosure.

The Manual currently has no discussion of follow-up to the loan closing to ensure that documents have been recorded properly and all recorded documents have been received from the recorder's office. We recommend that such a section be added to the Manual.

How are the various versions of the City's deed restrictions implemented?

Typically, inclusionary programs make revisions to their deed restrictions as the programs evolve over time, as the program parameters change and as staff and counsel identify areas in the deed restrictions that need revisions to improve program implementation or enforceability. During the course of this report, City staff compiled 29 different versions of the City's deed restrictions that are currently recorded and a list of which version is currently recorded on the title of each BMR property. This information will be invaluable in assisting PAHC staff to implement the various versions of the City's deed restrictions. A key piece of information that is not yet available is a list of ways in which the deed restrictions vary.

The number of different versions of deed restrictions is an administrative challenge for staff implementing the program without knowledge of the variations in the different versions. Currently, the Manual includes only one version of the City's deed restrictions, dated August 1993, which is recorded on title of only 28 of the 169 ownership units. City staff has provided at least four versions of the deed restrictions dated August 1993 or later. The Manual acknowledges on page 16 that there are different versions of the City's deed restrictions with different "policies on appreciation, termination, and occupancy" and that it is important to review the actual recorded form of the deed restrictions that apply for each unit. The Manual does address this when describing the calculation of the sales price based on the varying allowed appreciation rates but would need to address any other variations in program implementation that are identified in the various versions of the deed restrictions. City staff reports that it is the City's policy to replace older versions of the deed restrictions when BMR units resell. This practice should be included in the Manual. If the City decides to require that older versions of the deed restrictions be replaced with new deed restrictions upon refinancing the unit, or to allow existing BMR owners to have new deed restrictions recorded, with the incentive of allowing a higher appreciation rate, as recommended in this report, the administrative complications resulting from having many versions of the deed restrictions will be reduced.

5.1.1.4 Manual Format

What formatting would facilitate updates to the Manual?

The Manual could be formatted so that revisions to the program could easily be incorporated into the Manual and the Manual could be kept up-to-date. Currently, the Manual has a total of 16 pages with consecutive page numbering from the beginning to the end of the Manual, with various program forms in an index. The index format easily allows forms to be replaced as they are revised. The text could also be structured so that the Manual could easily be updated. The chapters or sections could have separate numbering so that changes to one chapter or section would only require that revised pages in the section be reprinted, rather that the entire Manual. Forms could be attachments to each relevant chapter, so that forms could more easily be added without having to renumber all of the Forms. The state Community Development Block Grant Program Grant Management Manual uses these formatting techniques effectively.

5.1.2 BMR Information Sheet, Waiting List Application, and Waiting List Application Update

According to the Manual, when a member of the public contacts PAHC to obtain information about the City's BMR Purchase Program, they are provided both an "information sheet" entitled Below Market Rate (BMR) Housing Purchase Program and a Waiting List Application. Since the waiting list provides the applicant pool for both new and resale units, this public information is for applicants interested in both new and existing BMR units. PAHC now has detailed program information available on its website, along with the Waiting List Application, which may be downloaded. Rather than have two different forms of public information describing the program, the public could be directed to the website or the website material mailed to members of the public who do not have access to the Internet. This would allow members of the public to have access to the same general program information and would make program materials easier to update and more internally consistent.

5.1.2.1 BMR Information Sheet

The purpose of this information sheet is to provide a clear and succinct description of the program, which the information sheet does accomplish well. The information sheet also functions to reduce administrative time by answering the most common questions that an interested waiting list applicant may have and by screening out waiting list applicants who would not be eligible to purchase a BMR unit through the City's program or would not be interested in purchasing a BMR unit once they understand the key program restrictions. Does the information sheet achieve these goals?

First of all, can an interested waiting list applicant determine if they are eligible for the City's BMR Purchase Program? The eligibility requirements include income limits, asset limits, household size restrictions for different unit types (number of bedrooms), and a restriction based

on citizenship or legal residency status. While the information sheet states that asset limits exist, it does not reveal what the limits are. The sheet also includes income limits for resale units but does not include income limits for the new units. Since those income limits are higher than those for resale units, the pool of waiting list applicants whose incomes are higher than the income limits for resale units would not know, from the information sheet, that they are eligible to purchase a new BMR unit and, thus, might not apply to be on the waiting list. Consequently, the waiting list would not have an adequate pool of interested buyers in the higher income ranges eligible for new units. The information sheet also does not include a brief description of how income is calculated so that interested applicants can determine if their income falls under the income limits. While legal residency in the United States is a program requirement, not a preference, it is included under heading entitled Preferences. The legal residency requirement could more clearly be included as a program requirement.

Can an interested applicant determine whether they are interested in purchasing a BMR unit and willing to comply with the City's program requirements? The information sheet does clearly state the owner-occupancy, rental restrictions, and restrictions on the resale of the unit, with a couple of exceptions. The information sheet does not include the term of the resale restrictions. Since terms for various programs can vary from 15 years to in perpetuity, this is a key piece of information. The information sheet could more clearly present the City's household size restrictions, which are included under the Waiting List subheading. Also, since many BMR buyers are concerned about being able to leave the equity in the property to their heirs and would not purchase a unit without reassurance that this is possible, this information might be useful to include in the information sheet.

Is the process clearly presented to potential applicants? Yes, the waiting list and buyer selection process is clearly presented in the information sheet. The buyer selection process could be clarified to indicate that the units are offered to eligible applicants with the lowest number on the waiting list only if they are "preference applicants", i.e., those that live or work in Palo Alto. Those who do not live or work in Palo Alto would be offered a chance to purchase only after all "preference applicants" even if they have a lower waiting list number than the preference applicants.

5.1.2.2 BMR Waiting List Application

The Waiting List Application requests information that PAHC needs to maintain the waiting list. Ideally, this form would be a clear, simple form that requests the minimum information needed by PAHC to maintain the waiting list. This application accomplishes this well. We have a few suggestions for improvements to this form. Since the form asks open-ended questions in which the answers could indicate that the applicant is not eligible to purchase a BMR unit, the City may consider revising the form to ask the applicant to indicate that they do meet various minimum program requirements regarding income, assets, gifts for the purchase, and legal residency status. These minimum requirements could be included either in the information

sheet and/or the waiting list application. Also, since the application requests the applicant's gross income, it implies that in all cases the applicant's gross household income must be under the income limits, yet, if the applicant has income from self-employment, a net income figure is used under the City's program. Applicants with gross self-employment income that exceeds the income limits would not know that they could be eligible to purchase a BMR unit based on their net self-employment income.

5.1.2.3 BMR Waiting List Application Update

PAHC has improved its process for updating the BMR Waiting List. One of the improvements is providing a distinct Waiting List Application Update that differs from the original Waiting List Application. This was developed to reduce confusion by those waiting list members who did not understand that they needed to submit a new waiting list application each year to remain on the waiting list.

5.1.3 BMR Information Packet

According to the Manual, when a new or resale BMR unit becomes available for sale, PAHC prepares the information packet, which is sent to all households who are eligible for the unit(s) for sale based on their household size. While eligibility is also based on income limits and asset limits, we agree that waiting list members should not be screened at this point in the process due to common misunderstandings about the method of calculating income and what sources of income or assets are included to determine program eligibility.

Again the function of these public information materials is to clearly answer the most common questions that an interested applicant might have and to screen out applicants who would not be eligible to purchase this particular BMR unit(s) through the City's program or would not be interested in purchasing a BMR unit once they understand the key program restrictions. This information packet functions to reduce the staff time involved in answering questions from the public and to avoid wasting time responding to questions and processing applications from those who are not eligible for the program. Does the information packet achieve these goals? In general, the information packets do clearly present the key information about the units, the eligibility requirements, the application process, and the program restrictions. Santa Barbara County's Affordable Housing Program Public Information Package also provides a model of a well-designed information package of general program requirements. Below are some suggestions for improvements to Palo Alto's BMR information packets.

5.1.3.1 Unit Information

The information packet provides essential information about the unit including the number of bedrooms, address, location, and price, some of the unit amenities, some project amenities, and the unit floor plans. In our experience, one of the primary considerations of homebuyers,

regardless of BMR status, and most frequently asked question is the square footage of the unit. The information packet for a resale BMR unit provided for our review did not include the unit square footage. Including the square footage information will eliminate staff time spent on applicants who consider the unit too small for their needs and will encourage applicants for those units with square footage that is adequate or ample for their housing needs. Also, accessibility is an issue for many applicants for their current or anticipated future needs. The application packet provided for our review indicated that it was a third floor unit, but not whether there was an elevator available for access to the unit (there are 3rd floor BMR units in Palo Alto without elevator access). Accessibility information on whether stairs would need to be negotiated within the unit or on the exterior would be important for many buyers. The amenities list also could include the appliances that are included to reassure the buyers that they would not need funds to purchase appliances, such as a refrigerator or washer/dryer, and would stimulate interest in the unit(s). A more detailed amenities list may be helpful, not only to ensure that the developer of new units is providing the level of amenities required, but also to ensure that the same amenities are included when the unit resells. For example, did the developer provide the refrigerator and washer/dryer with the sale of the original unit?

5.1.3.2 Description of Deed Restriction Requirements

In the description of deed restrictions, the information packet does not state the term of the resale restrictions or mention the City's requirement that the owner obtain the City's approval for any mortgage financing requirements. This is important information for the buyers and will help to promote compliance with the City's financing requirements.

5.1.3.3 Eligibility Requirements

One of the primary questions from interested applicants who are attempting to determine if they are eligible for the BMR program is how is the income calculated? Including this information in the information packet would reduce the number of questions to PAHC staff and the staff time involved in processing applications from ineligible applicants.

Both of the information packets reviewed in this study state that the application requires verification that the prospective purchaser lives or works in Palo Alto. This could be more clearly stated to indicate that those who do not live or work in Palo Alto are also eligible to apply.

The High Street application packet includes important information on estimated funds needed for the downpayment and closing costs and estimates of the anticipated monthly housing costs, including the mortgage payment, property taxes, and homeowner association dues. This is important information to convey to potential applicants who are not financially capable of purchasing a unit at the offered prices, but could be more clearly conveyed in a way that is not misunderstood as minimum income and asset requirements. For example, the section entitled "Minimum Income and Asset Requirements" could be entitled "Minimum Income and Asset

Estimates". Also, the Financing section could include the word "estimated" in its reference to annual income requirements and include "estimated" monthly and annual housing costs and "estimated" annual qualifying income.

5.1.3.4 Application Process Description

The application packet requests could more clearly state whether attendance at the open house is mandatory and that eligible buyers are selected based on whether they live or work in Palo Alto in addition to their waiting list number. The High Street application packet could more clearly describe the process for new units by which selected eligible buyers will be able to select units.

5.1.4 BMR Application with Financial Statement and Application Instructions

It is not clear from the Manual or from the information provided to the public how incomes are calculated when determining if an applicant's income is under the income limits. If this were clearly presented to the public, it would reduce staff time necessary to answer questions from the public about this and would reduce the number of applicants whose incomes are over the income limits. The only reference in the materials provided to the public about how the income is calculated is in the application instructions. The application instructions request that the applicant include three pieces of information related to each source of income, the total income for the previous year, including income contributed to a retirement fund; the total for last month; and the total for the next month, based on last month's income, if it was typical, which will be used to project the income for one year from the date of the application.

The method for calculating the applicant's income could be significantly simplified to reduce the burden on the applicant and to reduce the administrative time processing applications. The Manual indicates that federal guidelines are used to determine income eligibility and assets included in the calculation of income-generating assets. The applicable 94 pages of Chapter 5 of the Department of Housing & Urban Development (HUD)'s Manual 4350.3 REV-1, entitled Determining Income and Calculating Rent, is attached as an appendix to the Manual. These HUD standards are known as the Section 8 standards, referring to the federal subsidy program for very low-income renters.

These standards were developed for determining tenant eligibility for housing assistance and are not consistent with state ownership affordable housing programs or mortgage lending industry standards. Some inclusionary ownership programs use these standards because they use federal funds to assist the homebuyers or for ease of administration by the Housing Authority providing income certification services for the ownership program.

Regardless of which governing guidelines are used that determine which income and assets are required to be included, the method of calculating the base income that is then projected

forward to determine an annual income calculation could be simplified and could more closely conform with lending industry standards. The income calculation standards used in the Meadow Park development, a development that provided 350 BMR ownership units in Novato, provide a model. While the income and asset inclusions and exclusions were based on state law applicable to that development, the calculation of annual income was as follows: current gross wage income that does not vary was multiplied by the number of pay periods in the year; variable wage income was based on the prior year's total gross income plus the year-to-date gross income divided by the number of months included multiplied by 12; and self-employed income was based on a two-year average of the net income from the applicant's previous two income tax forms. This simplified approach would eliminate the need to review six months of pay stubs.

We believe that the income certification could be simplified in a number of ways to make the process easier for both the applicant and the BMR program administrator. Since the BMR administrator will be calculating the applicant's income and the applicant may be unclear about how the income is calculated, the application could be simplified so that the applicant only provides the information that the BMR administrator needs to calculate the applicant's income. The applicant needs to identify all of the sources of income and assets, including information on more than one job, if applicable, and the BMR administrator then uses that information along with recent bank statements, recent pay stubs, and the prior year's W-2's to calculate the current assets and income. Since the applicant generally provides this information on the standard mortgage loan application, the Form 1003, the City may consider requiring that the applicant provide a copy of that application along with a shortened City application that requests for any information not on the mortgage loan application. The City's application also could clarify that it needs to be signed by all adult members of the household.

5.1.5 BMR Program Information on the Web

The public's increasing use of the Internet to gather information has made dissemination of public information much easier and has dramatically reduced the staff time required by program staff to provide information to the public. PAHC has made commendable improvements to the program administration through updates to the BMR program information they provide on their website. The information on the website provides information for those interested in purchasing a BMR unit and for current BMR owners by reminding existing BMR owners of their rights and responsibilities.

5.1.5.1 City's Website

The City of Palo Alto has a page devoted to the BMR Purchase Program or affordable housing with a link to Palo Alto Housing Corporation's website. The City's website contains information about BMR requirements for developers.

5.1.5.2 PAHC's Website

PAHC updated its website in 2003 to include information about the BMR Housing Purchase Program's eligibility requirements, the BMR sale process, and buyer selection procedures. PAHC also added the Waiting List Application, which can be downloaded from the website. In the spring of 2005, PAHC updated their website again to add the following new sections: a BMR properties list with photographs, a list of recent BMR sales, a table of estimated income and assets needed to purchase a BMR unit, information on the new BMR units coming up for sale at 800 High Street, a section on BMR owner rights and responsibilities, a section on the laws governing condominium associations, home maintenance tips, an explanation of the BMR unit values, a list of lenders, and warnings about predatory lenders.

PAHC's website serves a very important purpose in providing an easy-to-negotiate, clearly presented general overview of the BMR Housing Purchase program. This is critical in providing necessary information to the public and to current BMR owners and dramatically reduces the staff time necessary to answer questions about the BMR program. It also has the potential to reduce program violations, such as over-financing the BMR units or illegal transfers of title by reminding BMR owner of their program restrictions.

PAHC's website information in 2005 provided the following information not available in the Manual or the most recent version of the information sheet provided for our review dated February 2004:

- PAHC Housing Services, LLC, an affiliate of PAHC, administers the City of Palo Alto's BMR Program,
- Income limits for new units are different from income limits for resale units,
- Asset limits: under 62 years old, limit is 50% of price of unit; 62 or older limit is 200% of price,
- Gift limits are 10% of the BMR price for buyers below 62 years old and are 20% of the BMR price for buyers 62 years or older,
- Household sizes are limited to two or more persons for a two bedroom unit and three or more persons for a three bedroom unit, with no restrictions on household size for studios and one bedrooms,
- Financing for the BMR unit may not exceed 100% of the BMR value,
- Refinancing over the BMR value of the unit "can result in criminal fraud charges as well as loss of the property",

- Renter violators will be required to sell unit,
- Owner occupancy must be reflected on property assessor data, and
- Rules governing transfers of title to children of the owner.

We have the following suggestions for some minor improvements to the website information:

- indicate that there are three eligibility requirements- income, assets, and citizenship status - not just income eligibility,
- briefly describe how income is calculated,
- include income eligibility for new units in Income Eligibility section,
- remove citizenship requirement from preferences section, since it is a minimum requirement, not a preference,
- include requirement for owners of applicable units to contact City or the City's designee, to obtain approval for any new mortgage financing or lines of credit,
- clarify whether the financing limit of 100% of the BMR value pertains to both refinancing and purchase,
- clarify that buyer selection is not based solely on applicant ranking on the waiting list but also on live or work status,
- clarify for existing BMR owners that resale price is set at different appreciation rates depending on the deed restrictions for the particular unit, and
- clarify that the current gift limit for those under age 62 is 10% of the BMR price (currently stated indirectly as 20% of the asset limit that is limited to 50% of the BMR price).

5.1.6 Workshop Materials

PAHC has offered workshops conducted by Project Sentinel to interested buyers on the BMR Waiting List and to current BMR owners. These workshops play a very important role of educating potential BMR buyers about the BMR program eligibility, the buyer selection and purchase process, and the requirements in the deed restrictions. It also helps to prepare the buyers by providing tips on qualifying for a mortgage loan, establishing a good credit history, and avoiding predatory lenders.

The workshops for current BMR owners are also a valuable tool to continue the education process about the BMR program restrictions by reminding BMR owners of the program

requirements and apprising them of potential enforcement measures available to the City and reduce the number of program violations. The workshops for BMR owners also include useful information on maintaining good credit, budgeting, avoiding predatory lenders. The one key BMR requirement that was not included in the workshop materials was the requirement for applicable units to obtain City approval when refinancing. The workshop materials also include policies not included in the Manual, e.g., transfer to adult children, or prohibitions of transfers to living trusts.

5.1.7 BMR Program Newsletters

PAHC has begun providing a well-written newsletter to those on the BMR waiting list. The July 2005 newsletter contained useful information about upcoming newly constructed BMR units, upcoming resales, upcoming BMR workshops, and a description of new information available on PAHC's website. The newsletter provided important information to those on the waiting list and should be continued.

PAHC has also begun providing a well-written newsletter to BMR owners. The August 2005 newsletter contained useful information about calculating the BMR unit value, refinancing restrictions, transferring a BMR unit to adult children, living trust restrictions, recent enforcement actions taken by the City, upcoming BMR workshops, upcoming new BMR units for sale, and a description of new information available on PAHC's website. The newsletter provided important information to homeowners and should be continued.

5.1.8 Waiting List

The waiting list, which currently includes approximately 600 members, consists of the member's waiting list number, name, address, and income. The list also indicates whether the member lives and/or works in Palo Alto, whether the member uses a wheelchair, and the unit types (1, 2 or 3 bedroom units) for which the member is eligible. The waiting list does not indicate the household size or the income as a percent of area median income. This could be a useful marketing/outreach tool to assess whether outreach is needed to reach more households in a particular income category.

PAHC staff was not certain why the list requests information about wheelchair use. Currently, those applicants on the waiting list do not receive any preference for those units that are externally accessible, e.g., ground floor units or upper level units accessible by elevator. According to PAHC staff, if a unit became available that is adapted for wheelchairs within the unit, those applicants who use wheel chairs would get first priority for that unit. This process is not included in the program manual or conveyed to the public in any of the program materials. If this is the City's policy, it would be helpful for those interested in the BMR program to be aware of this policy.

5.1.9 Deed Restrictions

The version of the deed restrictions provided in the Manual is the version dated August 1993. The key provisions in the deed restrictions include: the City's right to purchase the property, the resale process and deadlines; the allowable distribution of sales costs, the seller's requirements related to the pest control report, the formula for calculating the resale price, the method for calculating the value of capital improvements, the City's inspection process, seller requirements to maintain the unit, restrictions on rental and transfer of the property, the requirement to obtain City approval of any mortgage financing, allowable transfers that do not trigger the City's right to purchase, the 59 year term of the restrictions, the request for notice of default or sale requirement, and the foreclosure provisions.

While recommendations regarding revisions to the City's deed restrictions have been addressed in other sections of this report, for the purposes of this section, the deed restrictions were reviewed as they relate to the program implementation. Two key features are significant here. One is the resale process and deadlines which are discussed in Section 5.3 of this report.

The other key provision is the requirement that the BMR owner obtain the City's approval prior to obtaining any financing secured by the property. While this requirement only applies to those owners who purchased since this provision was incorporated into the documents in 1993, the requirement is not mentioned in any of the program materials provided for review as part of this report - the Manual, the Information Sheet, the Information Packet, the website materials, nor the workshop materials for waiting list applicants or BMR owners. Dissemination of information regarding this requirement to BMR owners would assist in preventing violations of this requirement and help to prevent over-financing of the BMR units.

5.1.10 Recommendations:

1. Clarify the process for adopting new program policy and procedures and who has the authority to do so.

2. Incorporate program policies into the program Manual, including a summary of the adopted policy, the adoption date, and the adopting entity (i.e. BMR Committee, PAHC Board, City staff, City Council) with reference to any background materials that would indicate the intent and relevant factors informing that decision and update the Manual as new policies are adopted.

3. Incorporate current program materials, such as the Information Packet, the Waiting List Application, and the Waiting List Application Update, and update the Manual as materials are revised or new materials are developed.

4. Incorporate new program parameters, such as income limits for resale units, household size requirements, asset limits, and gift limits, and update the Manual as needed.

5. Include sections in the Manual covering other areas for which policies have already been adopted (such as the rental of BMR ownership units, transfers of BMR units to heirs, transfers to trusts, maximum allowable financing, etc.) and those that the City may adopt as a result of this study (such as restrictions on types of mortgage financing).

6. Include new sections in the Manual covering refinancing and over-financing, continuing education for BMR owners, monitoring, default, foreclosures, and follow-up to the close of escrow.

7. Incorporate into, or reference in, the Manual the different versions of the City's deed restrictions, with the City's list of which versions were recorded on the title of each BMR property, both of which are already compiled by the City, along with any necessary variations in program implementation as a result of differing requirements in the various versions of the deed restrictions.

8. Consider replacing older versions of the deed restrictions with the revised deed restrictions with the performance deed of trust developed as a result of this study, when units resell, or by requiring that new deed restrictions be recorded upon refinancing the unit, or with the incentive of allowing a higher appreciation rate.

9. Consider reformatting the Manual to more easily incorporate updated information.

10. Make BMR information provided by mail (information sheet) and website materials consistent.

11. Consider minor revisions to Information Sheet, Waiting List Application, and Information Packets to clarify program information.

12. Provide a brief description of how income is calculated in program materials.

13. Ensure that information on the City's BMR Purchase Program for interested BMR buyers is accessible through a search on the City's website under such general topics as BMR Housing Purchase Program, below market rate units, and/or affordable housing, either through a link to Palo Alto Housing Corporation's website's description of the BMR Purchase Program from or BMR Purchase Program information on the City's website.

14. Make program information on the website consistent with the Manual and other program materials and consider minor clarifications to PAHC's website description of the program.

15. Continue providing workshops and newsletters to those on the BMR waiting list and to current BMR owners.

5.2 BMR Purchase Program Waiting List, Buyer Selection, and Applicant Screening Procedures

According to the Manual, PAHC, a non-profit organization, has administered the City's BMR Housing Purchase Program since its inception in 1974 under contract with the City.

5.2.1 Waiting List Procedures

5.2.1.1 Waiting List Process

The following describes the waiting list process as described in the Manual. Information on new or revised waiting list procedures that was provided to the consultant for preparation of this report that are not included in the May 2003 Manual are noted in parentheses. PAHC has subsequently compiled a detailed description of current BMR purchase program procedures that were not available for the preparation of this report, but should be incorporated into the Manual, once approved by the City.

1. An interested applicant contacts PAHC.

2. PAHC sends the interested applicant the Waiting List Application and an information sheet entitled Below Market Rate (BMR) Housing Purchase Program.

3. The applicant submits a waiting list application to PAHC.

4. PAHC assigns the applicant a number based on the date PAHC received the application.

5. PAHC enters the information off the application in the waiting list database, including the applicant's name, address, income, the unit size for which the applicant is eligible, and whether the applicant uses a wheelchair.

6. PAHC notifies the applicant of his/her number on waiting list (according to the information sheet).

7. Applicants are required to apprise PAHC of any changes in address or household size (according to the information sheet).

8. Once a year, in June or July, PAHC sends a new waiting list application to all those on the waiting list. (Current practice is to send a cover letter with a new Waiting List Application Update and program newsletter.)

9. Those who submit a new waiting list application are retained on the waiting list. Non-respondents are culled from the list. (Current practice is to notify all waiting list members of their new waiting list number after the list has been updated each year.)

10. When a BMR unit becomes available, all applicants of the appropriate household size for that unit are sent an information packet and notified of an open house date to view the unit.

11. Interested applicants attend the open house (attendance is required in order to submit an application, according to the information sheet and Information Packet for a resale unit).

12. Interested applicants are required to call PAHC to indicate their interest in purchasing the unit within 2-3 days and to submit an application within a week after the call-in period. (Current practice is to require that all interested applicants submit an application within a shorter timeframe; no phone call is required.)

13. PAHC contacts the first three interested applicants with the lowest waiting list number, i.e. highest on the list, to schedule financial application interviews.

14. Applicants are required to provide documentation at the financial interview for PAHC's review.

15. PAHC provides information to the applicant on available buyer assistance grants and deferred loans.

16. If the applicant is not eligible for the unit(s) currently available, or declines the available unit, they remain on the waiting list.

Recent improvements to the Process

In 2004, PAHC improved its waiting list update process by creating a separate waiting list update form, establishing a firm two-month deadline, clarifying the requirement that waiting list members must submit a waiting list application update to remain on the list, and providing reminder notices to all waiting list members. The annual updates are an important practice since they cull applicants who are no longer interested in the program.

PAHC has also improved its communication with waiting list members by informing the waiting list member of their waiting number both when they apply and when the list is updated each year. This reduces staff time responding to individual requests for that information and documents for waiting list members that their application was received and what their ranking is on the waiting list.

PAHC staff also reports that they have revised the process by which the interested applicants apply. In the past, the applicants indicated their interest in applying to purchase a specific unit through a phone call, whereas now all interested applicants submit an application. This is an improvement to the process due to the possible difficulty documenting whether an applicant had or had not expressed interest in applying.

Unclear Aspects of the Waiting List Process

The information sheet indicates that "information packets on units that come up for sale are sent only to applicants whose household size qualifies for the unit being sold." The waiting list application and the waiting list application update requests the applicant to indicate which unit type (number of bedrooms) the applicant desires. The waiting list data appears to indicate only the unit types for which the applicant has requested, not for which the applicant is eligible. We recommend that the information sheet and the waiting list application clarify this.

PAHC staff reports that they implement the program's waiting list preferences for those who live or work in Palo Alto by ranking the applications in order of their waiting list number for those in the priority category first and those in the non-priority category second. While the information available to the public does state this waiting list preference exists, it could more clearly state that the order that applications are processed is based not only on their ranking on the waiting list, but also based on whether the applicant lives or works in Palo Alto. In effect, two ranked lists are created from the applicant pool. The first list is all those who live or work in Palo Alto, ranked by their waiting list number, and the second is all those who do not live or work in Palo Alto, ranked by their waiting list number.

PAHC staff also reports that data is collected from the waiting list application, and included on the waiting list, on which applicants use wheelchairs. According to PAHC staff, if a unit became available that is adapted for wheelchairs, those applicants who need wheel chair accessibility would get first priority for that unit. The City may want to consider adopting a policy about whether those who use wheelchairs would have preference for BMR units that are externally accessible or internally adapted for wheelchair accessibility.

5.2.1.2 Evaluation of Palo Alto's Current Waiting List Process

Palo Alto's waiting list process is a hybrid of the notification lists and waiting lists processes used in other jurisdictions. Palo Alto's process uses the waiting list to notify interested buyers of available BMR units, but will allow only waiting list members to apply to purchase the available units, and selects the buyer based on their ranking on the waiting list. Some jurisdictions use a notification list to notify interested BMR buyers when BMR units are available for sale and select the buyers through a lottery or other buyer selection methods. Other jurisdictions use a waiting list to determine the order in which available BMR units are offered to an interested buyer. Many jurisdictions offer BMR units as they become available to the next eligible person on the waiting list. Since the waiting list member has not applied for that specific unit or units within that specific development, they may not be interested in purchasing the unit or units available. Palo Alto's process avoids that problem, by allowing waiting list applicants to apply for a specific resale unit or a specific new development with BMR units, so that applications are only being processed from applicants who expressed interest in the specific BMR units available. This is a good feature of Palo Alto's waiting list process.

Palo Alto's process is effective in the following ways:

- it keeps the list relatively fresh through annual updates,
- it provides clear and comprehensive information about the units, eligibility, the BMR restrictions, and the process,
- it requires that the actual unit or the developer's models, in the case of new units, be available for the interested applicant to view prior to submitting an application, which reduces fallout if the applicant is not satisfied with the particular BMR unit,
- it only requires PAHC to perform detailed financial applicant screening for the top few buyers selected, thereby reducing staff time,
- it only requires documentation from those top few buyers who have applied for a unit, reducing the work required by applicants and reducing the necessity that they provide personal financial information (a growing concern among homebuyers),
- it does not require a fee from the applicants, which benefits the applicants,
- it does not offer BMR units to those waiting list members who are not interested in a particular resale BMR unit or new BMR development, and
- it provides opportunities for homebuyer education for those on the waiting list.

Other jurisdictions may restrict the number of applicants on the waiting list, require fees to receive or submit an application, require participation in a homebuyer education workshop, and/or offer units to waiting list members in the order they are on the list, with a limited number of refusals allowed. We recommend a requirement that is used in Davis, Morgan Hill, and Monterey County, that every BMR buyer participate in a homebuyer education workshop that covers the BMR program requirements and prepares the buyer for the home buying process.

Adequate pool of eligible BMR buyers?

One measure of the effectiveness of the waiting list process is whether it generates an adequate number of eligible applicants. In general, PAHC staff reports that the current waiting list process is generating enough eligible applicants.

The High Street development is the first development to provide some units at the higher affordability levels adopted in the Housing Element 2002 update, with four of the ten BMR units at prices set at an affordability level in the middle of the 100-120% of area median income (AMI) range and offered to buyers with incomes up to 120% of AMI. Prior to the adoption of the December 2002 Housing Element update, the maximum affordability for all BMR units was set

at 100% of AMI. In anticipation of the need to generate a pool of higher income buyers on the waiting list, PAHC engaged in extensive marketing efforts to expand the waiting list to include more households with incomes above 100% of AMI. As a result of the marketing efforts, the size of the waiting list has increased from approximately 400 to 600 households. While the waiting list data does not include the income data as a percent of AMI, it appears that many of the new waiting list members are in the higher income range from 101% to 120% AMI. The sales process at 800 High Street is currently underway and the results of that process will provide useful information on whether the list is providing an adequate number of higher-end moderate-income buyers.

According to both PAHC and City staff, PAHC has had difficulty finding interested buyers for several BMR units resold in the Abitare and Redwoods developments due to the units being too small, too dark, in undesirable locations and in need of maintenance and modernizing upgrades and due to concern over homeowner association dues and special assessments. In a few cases, PAHC has had to market the BMR units to members of the public because no members of the waiting list were interested in purchasing the units. City staff suggested a change to the City's requirements, to allow very small two bedroom units be occupied by only one person; this would lessen the difficulty of finding buyers for smaller BMR units.

Both City staff and PAHC staff have also indicated that the out-dated condition of the BMR units upon resale has also resulted in difficulty finding interested buyers from the City's waiting list. Staff noted that BMR buyers demand more or different amenities than BMR buyers did twenty or thirty years ago, so that the older BMR units, even if they have been maintained, have finishes and features that are out-of-date and in need of upgrades. Our recommendations in Section 3.4 of this report address this issue.

PAHC staff has indicated that many waiting list members report that their income and/or assets are too high to qualify for the BMR units that have resold but are too low to be able to afford the new BMR units. Our recommendation to increase income limits and asset limits in this section of the report would allow more members of the waiting list to be eligible for available BMR units.

PAHC has required BMR applicants to turn in applications to purchase the units within a very short time period, usually less than a week from the date of the open house. We feel that the deadlines of three to four days to turn in an application may be too short, especially since the instructions for completing the application are somewhat confusing. We believe that a more reasonable deadline may be 10-14 days, unless the application is simplified and the instructions are clarified. This would also accommodate those eligible applicants who have been waiting for many years for a BMR unit but are out-of-town or in the hospital during the narrow window when applications are due. In the City of Emeryville, the developers are required to set an application deadline that is at least three weeks from the date that the developer and the City provide public workshops for the interested buyers and the application packages are available.

Buyers' Opportunity to View the Unit

PAHC's practice for both new and resale units is to only hold one open house in which the interested applicants have an opportunity to view the units before submitting an application. In the resale file provided for our review, the open house was held in the middle of a weekday.

In the 800 High Street development that is offering 10 new units, interested buyers were required to attend the open house but were assigned one of eight one-hour time slots between 11 a.m. and 4 p.m. on either a Saturday or a Sunday, scheduled based on the first letter of their last name, in which to view the unit. Only two adult members of the household were allowed to attend.

We believe that this practice is too restrictive for several reasons. First of all, some interested applicants may be prohibited from attending a weekend open house on either Saturday or Sunday due to religious reasons. In addition to that, we feel that such a limited viewing may be appropriate for those making a selection of a rental unit, but not for such an important financial investment as buying a home. According to PAHC staff, the developers' sales staff was reluctant to hold even one weekend open house, but this resistance could be a result of the prohibition on the payment of sales commission to the developers' sales agents for the sales of the BMR units. Allowing the developer to pay the sales team for the sales of the BMR units could greatly improve the level of cooperation from these agents. With 600 eligible households on the waiting list, the open house may be very crowded and difficult for an interested buyer to view the units. Also, some interested buyers may have more than one or two adult members of the household, for example a couple with an elder parent, so that applicants would be required to apply at a point in which not all of the adults had had an opportunity to view the unit. If one of the buyers is not interested in purchasing the unit after viewing it, it would be better to have that household decide that before applying for the unit and possibly going through the buyer selection process.

A more workable and reasonable model is the new BMR sales process in Emeryville, which has produced 189 BMR ownership units in seven new developments over the past five and a half years. In the Emeryville BMR program, the developer's sales agents are allowed to earn a sales commission for the sale of the BMR units, are paid by the developer, and are available to show the units to interested BMR buyers during any of their regular sales office hours, which are generally five to seven days a week, including weekends. The City of Emeryville requires that the developer have completed models for all unit types available at the time the BMR marketing starts and the marketing is required to continue for at least six weeks prior to the application deadline, during which time the applicants may view the units during any of the sales office hours during weekdays or on weekends. Also, because the BMR units are required to be comparable in size and finishes to the market-rate units and because the marketing is concurrent with the developer's marketing of the market-rate units, the developers have

provided furnished and decorated models of the BMR unit types, which has helped to generate interest in the BMR units.

Alternatives to the Waiting List Process

The waiting list process is a mechanism for generating a pool of interested applicants to purchase BMR units and for determining who gets priority for purchasing the units. An alternative method is generating an applicant pool through the use of a lottery, either to create a lottery list that is used for more than one development and/or resale units or a lottery that generates a pool of applicants for a single new development. While both a lottery and a waiting list may establish priorities for the applicant pool based on local preferences, a lottery is generally not used to select buyers for individual BMR units being resold. Lotteries are more likely to be used in jurisdictions that have a number of BMR units selling at one time in a new development and that have the owners select the eligible buyers, as certified by the City's program administrator. If it is a priority for the local jurisdiction that resale BMR units are resold to buyers in the jurisdiction's preference groups, such as those who live or work in that jurisdiction, the waiting list is typically used to ensure that.

A lottery for a particular development has the advantage of only processing applications for those interested in that development. Particularly in jurisdictions in which the BMR units, developments, or location vary widely, buyers may only be interested in certain developments depending on the unit size, location, parking, security, accessibility, play areas for children, etc. A lottery also has the advantage of creating a pool of applicants that is fresher than a waiting list pool, even if the waiting list is updated annually. Interested buyers, especially moderate income buyers, may be exploring other housing options at the same time that they apply to the list. The waiting list method gives an advantage to interested buyers who have waited the longest to purchase a BMR unit, while a lottery allows any applicant who meets minimum standards, including length of residency or local employment, to have an equal opportunity to be able to purchase a unit. With a lottery, newer hires may have an opportunity to live and work in the same community, which may be a priority for a community for which traffic reduction is a priority. Or a household in an existing BMR unit may be able to purchase a different sized unit as their household size changes over time. A lottery may also be perceived as a more transparent process, since the lottery numbers are usually assigned in a public lottery process. The staff of some jurisdictions contacted mentioned that the lottery created an opportunity for positive publicity for the city.

One advantage of a waiting list is that is can allow enough time for homebuyers, particularly first-time homebuyers to prepare for the home buying process. Some jurisdictions use that time that the applicants are on the waiting list to provide homebuyer education workshops about the homebuyer process and the specific requirements of their BMR program. The waiting list process can also provide time for the applicants to save for the downpayment and closing costs and take advantage of credit counseling and clear up any credit issues. One jurisdiction requires

that the applicant have their credit checked at the time they are placed on the waiting list so that the applicant can be clearing up any credit issues while waiting on the list.

While a cost comparison is beyond the scope of this study, local jurisdictions have selected different methods based in part on the administrative costs of the alternative approaches. A waiting list involves the staff time to maintain the waiting list- reviewing the waiting list applications, entering the data on the waiting list, notifying applicants of their waiting list number, mailing to waiting list members to update the waiting lists, processing annual update applications, and notifying mailing list members of their new number each year. When a unit is available for sale, information is sent to all eligible members of the waiting list. A lottery list only needs to include the applicant's name and contact information. The lottery list may be smaller since it only includes those applicants interested in a particular development. A lottery list does not need to be updated every year. Some jurisdictions require that the marketing, lottery process, and lottery number notification be done by the developer offering the new BMR units for sale so that much of the administrative burden is removed from City or the City's designee's staff.

Upon resale, many jurisdictions allow the seller to select the buyer. This process will be discussed in Section 5.3 of this report.

5.2.1.3 Recommendations:

1. Continue the new waiting list update process and incorporate this new process in the Manual.

2. Continue new process of requiring interested applicants to apply in writing and revise this process in the Manual.

3. Extend deadlines for interested buyers to turn in applications after viewing the available unit(s).

4. Clarify implementation of live and work preferences on the waiting list in the Manual and public information.

5. Clarify implementation of any preferences for those in wheel chairs in the Manual and in public information.

6. Require BMR buyers to participate in a homebuyer education workshop that covers the BMR program requirements prior to purchase.

7. Consider eliminating the two-person minimum household size requirement for smaller two bedroom units, so that one-person households may purchase small two-bedroom units.

8. Allow interested buyers to view a BMR unit being resold by a BMR owner on more than one opportunity.

9. Allow developer's sales agent or team to be paid sales commissions by developer.

10. Require developer's sales agents to show BMR units to interested BMR buyers during regular sales office hours for a designated number of weeks.

11. If the City is interested in shifting the responsibility for selecting the BMR buyers to the owners upon resale (whose eligibility would be certified by the City's designee), the City may want to consider using a lottery process for new BMR units.

5.2.2 Buyer Selection Procedures

5.2.2.1 Buyer Selection Process for New BMR Units

The following summarizes the buyer selection process for new BMR units as described in the Manual and other program materials provided for our review. PAHC has subsequently compiled a detailed description of current BMR Purchase Program procedures that were not available for the preparation of this report, but should be incorporated into the Manual, once approved by the City.

The process for BMR units being resold is addressed in Section 5.3, Resale Process.

1. The BMR Agreement between the developer and the City establishes the number, the unit types and floor plans, the location and the price of the designated BMR units in the development. (According to the Sales Procedures for New BMR Ownership Units, dated January 7,2005, the developer's compliance with the BMR agreement is one of the project's conditions of approval by the City.)

2. Developer notifies the City of the developer's intent to start the sales process when the developer receives the Subdivision Report, or "white paper", which is required for the developer to sell the units.

3. Developer provides documents to PAHC, including Declaration of Covenants, Conditions and Restrictions (CC & R's), Articles of Incorporation, and Bylaws of the homeowners' association, along with information about the units.

4. PAHC contacts the developer's sales person to explain the BMR program and arrange convenient dates for the salesperson to show the units to interested buyers.

5. The developer's sales agent schedules certain dates or a date for the BMR applicants to view the units. The developer's sales agent receives no sales commission for the BMR sales.

6. PAHC calculates the income and asset limits for the specific units, prepares the information package, and sends the information package to all eligible households on the waiting list.

7. Interested applicants are given an opportunity to attend an open house.

8. Applicants are given 2-3 days to call and express interest in purchasing the unit, with usually an additional week to turn in an application. (High Street Information Packet gives applicants 4-5 days to turn in an application, no phone call is necessary.)

9. PAHC schedules applicant interviews, meets with the applicants, and explains the BMR program requirements prior to the applicant signing the application.

10. PAHC reviews the application and documentation to verify the preference status and to determine eligibility to purchase the unit. (High Street Information Packet requires a lender pre-approval letter from the applicant.) PAHC provides a buyer and back-up buyers if necessary if buyer cannot obtain financing or does not go forward, for each unit.

11. Lending institution and PAHC staff confirms buyer eligibility before the City assigns its right to purchase to the buyer.

12. Within a week of applicant's qualifying for a BMR unit, buyer enters into a purchase contract with developer. (In City's Sales Procedures for New BMR Ownership Units, dated January 7, 2005, it states that the buyer enters into a purchase contract within two weeks.)

13. PAHC provides BMR deed restrictions to lender with request that lender provide confirmation of financial information on a Final Certification Form.

14. PAHC contacts Title Company to explain the BMR process and provides escrow instructions to the title company with instructions for recording: 1) the grant deed with the BMR deed restrictions attached; 2) the Request for Notice of Default; and 3) a Certificate of Acceptance form signed by the City. (In City's Sales Procedures for New BMR Ownership Units, dated January 7, 2005, it states that the developer is responsible for providing escrow instructions for the proper recording of the City's deed restrictions to the title company.)

15. PAHC has already certified a back-up buyer, if the selected buyer cannot obtain financing or breaches contract.

We recommend that the Manual provide a similar list or flow chart that indicates the steps in the buyer selection process and the order in which they are performed.

The following aspects of the buyer selection process could be clarified in the Manual:

1. The Manual indicates that the applicant signs application after BMR requirements are explained in the applicant interview but applicant is required to turn in application prior to the interview.

2. It is not clear how the applicant or developer is notified that applicant is eligible in the sales process for new units (the checklist for initial sales refers to a letter of Eligibility to Purchase & Acknowledgement and Notification re Eligibility to Purchase and a letter to City regarding the purchase price that is not included in the Manual).

3. The Manual states that the right to purchase is assigned to the buyer, but includes a form letter from the City assigning the right to purchase to PAHC. While PAHC staff maintains that the City has not assigned its right to purchase in writing to either the buyer or PAHC for many years, the City's Real Property staff confirmed in December 2005 that the City continues to assign its right to purchase to PAHC. The form letter being used by the City's Real Property staff is identical to model form letter included in the 2003 Manual.

4. The Manual includes no discussion of reviewing the purchase contract provided by the developer as referenced in the City's Sales Procedures.

5.2.2.2 Buyer Selection Process for New Units Issues

One of the main issues facing local jurisdictions in the buyer selection process is the administrative time necessary to process the number of applications needed to generate the final buyer who enters into a purchase contract. Typically, other jurisdictions report that a large number of applicants "fall out" of the buyer selection process for a number of reasons. A common rule of thumb is that 10 low-income applications and 5 moderate-income applications are determined to be ineligible or processed for every household that enters into a purchase contract. Many applicants, particularly lower income households, are not able to purchase the BMR units available because they have inadequate income or assets to qualify for the necessary financing or provide the necessary downpayment and closing costs. Some buyers are not able to get the necessary mortgage financing due to a bad credit history, with tax liens, bankruptcies, foreclosures, and/or late payments, or excessive debt for credit cards, car payments, or school loans. Other buyers may withdraw from the process if they were unable to see models of completed units or if they have concerns about unit or development features,

such as size or location of the units. Others may have concerns about the limited appreciation allowed the BMR units or their ability to leave their equity in the units to their heirs. Others may not have been fully aware of the BMR restrictions and withdraw once they are more aware of the program requirements. In the case of units that are not priced far enough below market rate prices within commuting distance, buyers typically are very reluctant to buy a price-restricted unit.

Palo Alto's BMR purchase program, administered by PAHC, avoids some of these problems by 1) providing a workshop once a year to waiting list members with information about the program requirements, qualifying for a mortgage and maintaining or reestablishing good credit; 2) providing information on estimated incomes and assets needed to purchase a BMR unit on its website and in the information packets; and 3) requiring that models be available for viewing prior to the application deadlines.

It is important to note that Santa Clara County's area median income (AMI) levels, upon which Palo Alto's income limits for its housing programs are based, are the highest of any county in California, as of the 2005 income limits as published by the state Department of Housing & Community Development. Santa Clara's current median income for a household of four of $105,500 is even significantly higher than other high-cost Bay Area counties, such as Alameda and Contra Costa counties with a $82,200 AMI or Marin, San Francisco, and San Mateo counties with a $95,000 AMI. Consequently, when discussing what is appropriate or typical for lower income (very low and low income buyers), low income buyers in Santa Clara County are roughly comparable to median income buyers in Alameda or Contra Costa counties and may be moderate income or above in counties outside of the highest-cost areas of California.

Other jurisdictions have adopted procedures to address the "fall out" issue. San Mateo requires credit checks prior to adding applicants to their list so that people can clean up credit. Morgan Hill requires that applicants pay $30 fee to receive an application, attend a seminar, and be pre-qualified by a lender. Monterey County requires the top 75 applicants on their waiting list attend a homebuyer workshop, participate in credit counseling, watch a video about the BMR program, sign a certification that they watched the video, and obtain a mortgage pre-approval from a lender. The City of Davis requires homebuyer education before an applicant is offered a unit. The City of Emeryville requires full loan approval prior to entering into a purchase contract, participation in a homebuyer education workshop, and execution of a disclosure statement regarding the deed restrictions provisions.

PAHC has reported that BMR buyers have taken advantage of a number of public programs that have provided downpayment or closing cost assistance, yet, at the time of the preparation of this section of the report, PAHC staff reports that none of these funding sources are currently available. Consequently, BMR buyers in the future may have a more difficult time qualifying to purchase BMR units in Palo Alto.

Palo Alto's deed restrictions have never been approved by FNMA, Freddie Mac, FHA, or CalHFA. Because of this, mortgage loans to BMR buyers must be held in the lender's portfolio and may not be sold on the secondary mortgage market. This reduces the number of mortgage lenders and mortgage loan products available to BMR buyers. Staff believes that in the past local lenders have provided their best products and rates available for lower income buyers, but the future level of BMR unit production over the five years will increase the need for expanded, non-portfolio loan products.

5.2.2.3 Recommendations:

1. Clarify in the Manual the process for notifying the applicant and the developer/sales agent when an applicant is qualified to purchase a particular BMR unit.

2. Clarify in the Manual the process for City to assign its option to purchase to the qualified buyer and include a model form in the Manual.

3. Clarify in the Manual the unit selection process by buyers.

4. Work with FNMA, FHA and CalHFA to revise City deed restrictions to comply with FNMA, FHA, and CalHFA guidelines so that borrowers may obtain downpayment assistance, favorable underwriting terms, and favorable interest rates and terms available with FNMA-conforming loans, FHA loans, and CalHFA loans and grants.

5. Require buyers to sign a disclosure of BMR requirements in the deed restrictions.

6. Consider requiring (vs. optional) homebuyer education workshops for all waiting list members.

5.2.3 Applicant Screening/Underwriting Criteria

5.2.3.1 Income Limits

5.2.3.1.1 Current Income Limits for New BMR Units

The City of Palo Alto's maximum income limits for households purchasing new BMR ownership units are based on the HCD's income limits for median income households (up to 100% of AMI) and moderate income households (up to 120% of AMI) for Santa Clara County depending on the designation of the unit in the BMR agreement with the developer.

5.2.3.1.2 Income Limits for BMR Units in the Manual

The Manual does not include any reference to the maximum income limits for new BMR units based on the HCD income limits. The Manual's Eligibility Guidelines section, which includes

asset and gift limits, does not include any reference to income limit requirements to determine applicant eligibility. In the Buyer Selection section of the Manual, the Manual states that PAHC calculates the maximum allowable income limits, for both new and resale units, by multiplying the buyer's annual housing cost by 3.5 and adding $2,000 for each household member in addition to the first person in the household. The Manual's attachment number 5 includes the Income and Assets Limitation Worksheet (dated 1994) used for this calculation, which indicates that the income limits are derived from the purchase price and are inversely related to the amount of the applicant's downpayment. So that the higher the downpayment, the lower the allowable income and vice versa. The income limits, adjusted by household size, are calculated based on downpayment amounts varying from a 5% to a 100% (all cash purchase) downpayment.

We recommend that the Manual refer to the HCD income limits currently being used for both new and resale units and include the current version of the City's annually released Income Standards & Rent Limits for Affordable Rental & Ownership Housing in Santa Clara County as an attachment to the Manual.

5.2.3.1.3 Current Income Limits for Resale BMR Units

In early 2004, PAHC revised the BMR program income limits for resale BMR units as follows: households with incomes up to 70% of area median income (AMI) are eligible for BMR units with prices under $100,000, households with incomes up to up to 80% AMI are eligible for BMR units with prices between $100,000 and $150,000, and households with incomes up to 100% AMI are eligible for BMR units with prices above $150,000. PAHC staff recommended that the income limits for resale BMR units be raised to these levels, due to PAHC's difficulty finding qualified buyers for resale units using the previous system, which had the effect of limiting buyers to households with a very narrow band of minimum and maximum incomes and assets. Those who qualified often had poor credit histories, insufficient funds for downpayment and closing costs, and difficulty obtaining mortgage financing, while other financially sound households were excluded because they were over the income or asset limit. PAHC staff also expressed concern that very low income buyers would not have the continued ability to maintain their housing payments, would not be financially able to maintain their units in good condition, and could fall prey to predatory lenders who offer unfavorable loan terms and are eager to foreclose.

City staff has also noted that "the past practice of 'matching' a buyer to the BMR resale price of the BMR unit created "an excessively narrow band of eligible waiting list households." Feedback from waiting list members was that potential buyers kept being excluded from BMR units that they were interested in buying because they were over-income or had too much in assets. PAHC staff noted that by creating a simplified, three category system of income limits for resale units and more liberal rules on maximum assets, combined with strict gift limits that they seem to have improved the situation. According to PAHC staff, good, solid buyers that had

been bypassed for years (by just being a bit over income for the typical resale BMR unit or by having high savings for retirement) have now bought BMR's and the rules are much easier for people to understand.

The low appreciation rates on BMR units (due to moderate inflation as measured by the CPI) have resulted in resale prices that are affordable to an increasingly lower income level of buyer. For example, if the unit was originally priced to be affordable to, and purchased by, a household with an income that does not exceed 100% of AMI, the appreciation formula may result in the unit being resold at a price affordable to, and purchased by, a household with an income not exceeding 80% of AMI, and at the next resale, the unit may be resold at a price affordable to, and purchased by, a household with an income not exceeding 60% of AMI. The older the unit, the lower the required affordability over time, as the allowable appreciation rate (one-third of the increase in the Consumer Price Index for most units) has created a greater gap between the unit's originally-designated affordability level and the income level to which the unit is allowed to be resold. According to PAHC staff, in the past, the income limits for resale BMR units have steadily declined over time so that income limits were being set at approximately 50% of area median income. Even with the 2004 increased income limits for resale BMR units (see above), the resale units are, in general, still required to be sold to a lower level of affordability than that originally required when the unit was new. While beyond the scope of this report, it would be useful to review data on the originally required income level of the BMR units (as a percentage of the current AMI), compared to the income level of the buyers (as a percentage of the current AMI) required at each resale. City staff stated that the goal of the City has been to provide housing affordable to a lower income buyer at the time the units resell than the income level of the original buyer through lower resale prices.

5.2.3.1.4 Best Practices for Establishing Income Limits for New BMR Units

The best designed inclusionary housing programs are designed to create affordability to a pool of buyers within the designated income range, not just buyers with incomes at the top of the maximum allowable income range. This has been an important feature of successful programs in generating a large enough pool of eligible buyers to purchase the BMR units. This has been achieved through different mechanisms. One method is to set BMR prices at those affordable to households in the mid-point of the designated income category, while setting maximum allowable income limits at the top of the designated income range. For example, if the units are designated to be affordable to households between 81% and 120% of area median income (AMI), the prices would be calculated based on what is affordable to a household at 100% of AMI and the income limits for the eligible households would be set at 120% of AMI. Another way that jurisdictions have created affordability to households throughout the designated income range is by providing downpayment assistance funds through deferred payment, low-interest rate second mortgages to the eligible BMR buyers. This option is only feasible if the jurisdiction has a local funding source such as redevelopment funds or a housing trust fund

funded by in lieu housing fees or has competed successfully for limited outside funding through state or federal housing programs.

Palo Alto has used this “best practices” approach for new BMR units, in establishing prices for BMR units at a mid-point in the applicable income range, while allowing incomes of the buyers not to exceed the maximum income limits for the income range. If this has been the City’s practice since the program’s inception, Palo Alto has provided a model for other inclusionary programs throughout the state.

5.2.3.1.5 Best Practices for Establishing Income Limits for Resale BMR Units

In many inclusionary housing programs, a BMR unit is designated at a certain level of affordability and remains at that affordability level through the term of the deed restrictions on the unit. For example, if certain BMR units were originally required to be affordable to, and purchased by, low income households with incomes no more than 80% the current AMI, that unit would be required to be resold to low income households with incomes no more than 80% of the current AMI at the time the unit is resold, until the term of the deed restrictions on the unit have expired.

For Palo Alto’s resale BMR units, this approach has not been used. While until recently the City’s BMR units have been initially priced at the lower moderate income level, in general, the units have been resold over time to households who have incomes that are increasingly lower than the maximum income restrictions originally applied to the unit. According to City staff, the one-third of CPI appreciation formula was, in part, intended to provide affordability to a lower income buyer when the unit is resold.

From a marketing perspective, it makes sense to have older units sell at lower prices than newer units. Buyers prefer new units that have less maintenance required and more modern fixtures, amenities, and layout. On the other hand, older units require more reserves to do necessary maintenance and make capital improvements. In the case of BMR units, in makes more sense to allow enough appreciation to provide incentives and the necessary equity for the BMR owner to maintain the unit.

The City has achieved a supply of housing units affordable to very low and low income buyers, not through greater subsidies to a developer or reduced development requirements available to a developer in terms of fewer BMR units or other cost-reducing measures. Instead, by the limited appreciation of BMR units, the owners are foregoing increases in equity that would have been available if the BMR unit remained affordable to the original income category of buyer.

In the 3.2 section of this report, we recommend that appreciation rates on resale units be increased at a level to allow sufficient equity for the BMR owners to cover property maintenance, capital improvements, and homeowners’ associations’ special assessments. We

recommend that, in conjunction with adoption of a new resale price formula that allows the owner to sell the BMR unit at a price affordable to buyers in the same income category as was originally required for that particular unit (through prices set at mid-range), that the City also set income limits at the top of the applicable income range for that unit.

5.2.3.2 Assets

5.2.3.2.1 Asset Limits

The current asset limits for the BMR purchase program, adopted in 2004, limits assets, not including retirement funds, for seniors 62 years or older to 200% of the BMR price and to 50% of the price of the BMR price for those applicants under 62 year old. This replaced a previous requirement adopted in 2000 that limited assets to 100% of the BMR price for those over 65 years of age. The City's rationale for limiting assets is to eliminate BMR buyers who could afford to purchase a market-rate unit, with a higher assets test for senior applicants due to the fact that they generally have diminished earning potential and may be relying on income from their assets. When considering the increase in the asset limits for seniors, PAHC staff considered setting the limits at 2-3 times BMR price, as an interim measure until this report is completed. According to PAHC staff, the rationale for raising the asset limit for seniors to 200% of the BMR price was to accommodate those seniors who want to purchase a BMR unit with little or no debt, or those who accumulated retirement funds in a non-designated retirement account, such as those who may have assets from a divorce or death of a spouse.

Previously, according to asset calculations in the Manual, the City's asset limits varied depending on a downpayment between 5% to 100% of the purchase price. The higher the downpayment, the higher the allowed assets, so that the maximum assets allowed the buyer to pay all cash and have reserves slightly over the amount needed to cover housing costs for one year. With a more typical downpayment of 5%, the maximum assets allowed, after payment of the downpayment and closing costs were also slightly more than the funds needed to cover housing costs for one year. City staff reports that the City's previous method of calculating minimum and maximum asset limits were too restrictive, resulting in too many applicants on the waiting list being unable to buy even though their total assets represented a reasonable level of financial reserves. City staff also noted that many waiting list members have consistently been over-qualified for the resale BMR units and under-qualified for the new BMR units. Other factors in the decision to raise the asset limits for seniors was to attract more seniors for the smaller BMR units that were in less demand from family households and to attract BMR owners with enough resources to upgrade their BMR units and pay upcoming special assessments.

It is useful to examine what the current asset limits represent in dollar amounts. Based on recent resale prices on PAHC's website in August of 2005 ranging from $54,300 to $122,900, asset limits for buyers purchasing those units would be $27,150-$61,450 for buyers under the age of 62 and between $108,600-$245,800 for buyers 62 and older. Based on the 800 High

Street sales prices ranging from $189,450 to $348,600 for new BMR units, the asset limits for buyers under the age of 62 would be $94,725 to $174,300 and the asset limits for buyers at least 62 years old is $378,900 to $697,200.

There are a number of reasons why the City's current asset limits, based on the BMR price and the age of the buyer, may be too restrictive. The different asset limits for those under or over age 62 is somewhat arbitrary, since the need for retirement funds increases progressively as the buyer gets closer to retirement age. Buyers may also be saving, or currently need funds, for non-retirement financial needs, such as funds for their children's college education or for family medical expenses. Other buyers with very limited incomes may be living off of their assets, for example in the case of a disabled person with a disability settlement. In other areas of the report, we have also noted the need for adequate reserves to cover maintenance, capital improvements, and homeowner association special assessments. In addition, buyers with limited assets are the most likely to go into default or possible foreclosure due to a job loss or large medical expenses.

The asset limits for buyers under the age of 62 for both resale and new BMR units are far below what would be required for a buyer's downpayment, closing costs, and reserves necessary to make a market-rate unit in Palo Alto affordable to low-to-moderate income buyers. This is also true for the senior buyers purchasing lower-priced resale BMR units. The asset limits could be much higher and still eliminate buyers who could afford to purchase market-rate units.

Rather than tie the asset limits to the BMR price, the limits could be tied to the amount needed to achieve affordability for a median income buyer for a median priced market rate unit. The asset limit for seniors could be higher to accommodate the City's interest in providing higher asset limits for seniors. The city of San Mateo's asset limits for their inclusionary housing program is a model. Their asset limit is 50% of the unit's fair market value for buyers up to 62 years of age and up to 100% of the fair market value of the unit for disabled head's of households and seniors over the age of 62. It would be administratively easier to use an index such as the median single family home sales prices available on the California Association of Realtors (CAR) website. For example, the median home price for Santa Clara County, published by CAR for November of 2005 was $670,000. The percentage of the selected index that would represent a reasonable asset limit would be locally-determined. The impact of raising the asset limits would be to increase the pool of eligible buyers on the City's waiting list and reduce the time spent by PAHC in processing applications whose assets exceed current limits.

5.2.3.2.2 Minimum Asset Requirements

As noted earlier in the report, the City previously had both minimum and maximum asset limits but eliminated the minimum asset limits in a desire to simplify the eligibility requirements. If the City decides to require a minimum downpayment, then it would be important to ensure that the

applicants have adequate funds for downpayment and closing costs. If not, buyers may be able to obtain 100% financing for their BMR purchases. If the City obtains CalHFA approval of its deed restrictions, many BMR buyers would be able to take advantage of the various CalHFA deferred loans and grants that can eliminate the need for funds for downpayment and closing costs. Some buyers, who have good earning potential, would be good candidates for this type of assistance. We do not recommend establishing a minimum asset limit.

5.2.3.2.3 Income-Generating Assets- Included/Excluded

The PAHC has adopted policies that exclude retirement funds from the assets that are included as income-generating assets in calculating the applicant's income. The exclusion of retirement funds when calculating income from assets is reasonable and should be maintained.

Other jurisdictions also vary in their definition of assets included in the asset calculation. For example, some jurisdictions, such as County of Santa Cruz, County of Monterey, the City of Novato (in their 350 homeownership Hamilton base project) and the City of Emeryville, deduct the costs of purchase (downpayment and closing costs) when calculating total assets. The rationale for excluding funds or equity to be used for downpayment and closing costs is that assets used for that purchase will no longer be available to the BMR owner to generate income or to serve as reserves. For some, such as City of Novato, who wanted, in part, to provide affordable housing for seniors in their city, this allowed a senior buyer household to sell an existing home and use the equity to purchase a BMR unit. San Mateo city staff indicated that they adopted their own definition of assets since the HUD definition is targeted to renters. The City of Emeryville only includes income from real estate and non-retirement liquid assets in accounts. We recommend that the City deduct the funds to be used for downpayment and closing costs when calculating income from assets.

5.2.3.3 Gift Limits

The BMR purchase program currently limits gift funds for the purchase of a BMR unit to no more than 10% of the BMR price for buyers under the age of 62 and no more than 20% of the BMR price for those 62 years old and older. In 2000, the City adopted a policy to limit gifts to 10% of the BMR price for buyers and in 2004; PAHC increased the gift limit for seniors from 10 to 20% of BMR price.

According to City staff, the intent of limiting the amount of gift funds provided to the BMR buyer is to eliminate purchases in which a relative is totally or principally providing the funds for the BMR purchase. City staff reports that they noted an increasing number of applicants who had little or no income or assets, could not demonstrate that they had adequate resources to cover monthly housing costs, and were relying on extended family members or friends to provide large gifts or private loans. According to PAHC staff, the rationale for adopting asset limits was to assist the neediest buyers and to ensure that the buyers have a financial stake in the BMR unit.

The concern was that applicants with little or no income would be at risk of foreclosure and those applicants with access to large family gifts were not the type of households the program was intended to serve. According to City staff, the rationale for establishing lower gift limits for non-senior buyers was to encourage non-seniors to obtain mortgage financing so that the lender would evaluate the buyer's credit, employment history, and ability to handle the costs of ownership. This will be further discussed below in the Minimum Loan Amount section.

It is helpful to examine the gift limits in terms of the dollar amounts that these limits represent. Based on BMR resale prices of $54,300 to $122,900 on PAHC's website (as of August 2005), gifts limits would range from $5,430 to $12,290 for buyers under age 62 and range from $10,860 to $24,580 for buyers 62 and above. Based on the 800 High Street sales prices ranging from $189,450 to $348,600 for new BMR units, the gift limit for buyers under the age of 62 is $18,945 to $34,860 and the gift limits for buyers at least 62 years old is $37,890 to $69,720. From these examples, we can see that, since the gift limits vary based on the price of the units, the gift limits for resale units represent relatively small financial contributions.

Of the other programs contacted, none indicated that they set limits on gifts. Some jurisdictions, such as Sunnyvale, felt that it was worthwhile to assist income-eligible buyers even if they received substantial financial assistance from family members. It can be a way for relatives to provide stable, independent living situation for an extended family member, such as a retired parent or a disabled person, in close proximity to their support network. Some programs have noted attempted abuse of the BMR programs by parents interested in purchasing a BMR unit for an unemployed or under-employed adult child, such as a college student, who is dependent on the parents for financial support. The City of Emeryville restricts purchases to buyers who can demonstrate that they have the income and/or assets to purchase at least 50% of the value of the unit.

We recommend that the City consider increasing gift limits, but to no more than 50% of the BMR purchase price.

5.2.3.4 Allowable Sources of Downpayment Funds

The City of Palo Alto does not currently restrict the source of downpayment funds provided by the buyer, other than the gift limits discussed above. Downpayment funds may come from various sources, including the buyer's own funds, gift funds from a friend or relative, withdrawals from retirement funds or insurance policies, grants, conditional grants, or deferred payment loans. In the past, certain mortgage lenders, such as Citibank and First Nationwide, had grants available to cover closing costs for certain homebuyers. CalHFA currently has a number of programs that provide grants or conditional grants/loans for downpayment and closing costs. "Conditional grants" are loans that are forgiven incrementally over time to encourage continued ownership for a certain period of time, such as five years. The CalHFA low interest rate loans and grants have been instrumental in creating homeownership opportunities for low and

moderate income buyers with little funds available for downpayment and closing costs. The Affordable Housing Program (AHP) provides funds to a member lending institutions for downpayment assistance grants or conditional loans. Under FNMA guidelines, deferred payment loans may be considered downpayment, rather than debt, since there are no monthly payments required. While mortgage lenders may establish restrictions on the source of a downpayment, generally local jurisdictions have not restricted the source of downpayment funds, other than to prohibit loans to meet any downpayment requirements for the program.

According to PAHC staff, downpayment assistance funds available to Palo Alto's BMR buyers in the past have included lender grants, deferred-payment zero interest loans from the Housing Trust of Santa Clara County, and Santa Clara County's downpayment assistance loans, but these sources are only sporadically available.

If the City decides to establish a downpayment requirement in the form of a 95-97% loan-to-value limit, we recommend that the City prohibit conditional grants, which must be repaid under certain conditions or loans as a source of downpayment to meet any City required minimum downpayment requirement.

5.2.3.5 Minimum Loan Amount

The City of Palo Alto currently has no explicit minimum loan limit requirement. However, since the asset limit for non-seniors is currently 50% of the BMR purchase price and the funds to be used for downpayment and closing costs are included in the asset calculation, the City does effectively have a 50% minimum loan requirement for non-senior buyers. Previously, the City allowed all cash purchases by any BMR buyer, regardless of age.

The intent of a minimum loan amount requirement would be to prohibit large downpayments or an all-cash purchase. While the rationale may be to restrict buyers who have enough assets to purchase a market-rate unit, BMR units could be purchased with all cash in an amount that is far less than would be needed to purchase a market-rate unit. According to City staff, the City considered establishing a minimum loan amount requirement for non-senior buyers so that the lender would evaluate the buyer's credit, employment history, and ability to handle the costs of ownership, but City staff expressed concern about creating too complicated eligibility requirements. The City could consider establishing some minimum standard of credit worthiness, such as two year's of clean credit following a bankruptcy or foreclosure. This, along with debt-to-income limits, will help to ensure that the BMR buyers are able to handle the costs of homeownership.

There are some legitimate reasons for all-cash or large downpayment BMR unit purchases. As noted in the discussion of Asset Limits in this report, buyers with very limited incomes, such as retired or disabled, may be living off of their assets and do not have adequate income to support a mortgage. Others may have sold or intend to sell their home in order to downsize for

retirement. In addition, some buyers avoid paying interest on a loan for religious reasons. In other cases, cultural or ethnic groups pool resources cooperatively to assist members to buy homes.

We recommend that the City eliminate its current policy requiring non-seniors to obtain financing for at least 50% of the BMR value.

5.2.3.6 Maximum Combined Loan-to-Value (CLTV)

This discussion includes three issues to consider in limiting the maximum combined loan-to-value: 1) limiting the combined loan-to-value (CLTV) to the BMR price at the time of purchase, 2) requiring some equity investment in the home, and 3) limiting the CLTV at the time of refinancing.

5.2.3.6.1 CLTV Limits at Time of Purchase

According to the PAHC website, the City's current policy restricts mortgage financing to 100% of the BMR value. It is not clear when this policy was adopted or whether this limit applies at the time of purchase, at refinancing, or both. PAHC has reported that borrowers have used loans to cover closing costs, so it is not clear whether borrowers may now obtain purchase loans in excess of 100% CLTV. Many low-to-moderate income homebuyers are now purchasing homes using the combination of available CalHFA loan products, which may not require any downpayment and may exceed 100% CLTV since one or more CalHFA deferred payment loans may cover closing costs. When the City's deed restrictions are approved by CalHFA, it will be important to limit the CLTV to 100%.

5.2.3.6.2 Downpayment Requirement

City staff has also indicated an interest in reducing the combined loan to value (CLTV) to 95% of the BMR value. The intent of a CLTV limit below the BMR value would be to reduce the risk of foreclosure by increasing the borrower's investment in the property. On the one hand, buyers who contribute downpayment funds have a demonstrated ability to save and a vested interest in the property. On the other hand, the lack of adequate funds for downpayment and closing costs is the greatest obstacle to homeownership. Also, under the City's current rules, up to 10% of the purchase price for non-senior buyers could come from gift funds, rather than from the borrower's own funds.

Other jurisdictions, such as the City of Sunnyvale, require a 3-5% downpayment but the City also provides funds to the buyers through its First Time Homebuyer or IDA programs. The City of Morgan Hill requires minimum downpayment of $1,000. Monterey County requires at least a 5% downpayment.

5.2.3.6.3 CLTV Limits at Time of Refinancing

According to City staff, over-financing, or financing over the current BMR value of a BMR unit, has been a problem in the BMR purchase program. The City's intent is to prevent a combined total financing that exceeds the BMR value putting the owner at risk of default and putting the City at risk of losing the BMR unit, while allowing the owner to have access to equity built up in the property. The City has encountered problems from over-financing that have taken up an inordinate amount of staff time. We agree that it is very important to limit financing to the BMR value and we have recommended mechanisms in this report that we believe will eliminate future over-financings in conjunction with a CLTV limit of 100% or below.

The City of Sunnyvale staff reports that the City did a title search of all 180 BMR units at a cost of $3,000 and discovered that 31 of their BMR properties were over-financed. As a result, the City required the BMR owners to sign new resale documents that required City approval prior to refinancing, which were then recorded on title. They also require that BMR owners view a video or attend a class describing the City's financing restrictions prior to refinancing every 3 years. Both Monterey County and the City of Morgan Hill allow refinancing only up to 95% of the BMR value.

The County of Santa Cruz is considering reducing its CLTV limit of 100% to 80%, since its resale prices can go down. If the City adopts an appreciation rate that is based on affordable housing cost without a minimum resale price, the City's may want to consider establishing a lower CLTV for refinanced loans.

Since there is some risk of property value depreciation due to the owner's deferred maintenance or market depreciation, the BMR units that are close to market rate prices, as reported by City staff, we recommend that the CLTV limit for refinancing be set at 95% of the current BMR value or the outstanding balance on the first mortgage, whichever is more.

5.2.3.7 Maximum/Minimum Housing Costs to Income Percentage

The mortgage lending institutions typically evaluate the borrower's debt-to-income ratios as part of the loan underwriting process. The lender considers the borrower's anticipated monthly housing costs (including the mortgage, property tax, and condominium association dues payments) as a percentage of the borrower's monthly income, known as the front-end debt-to-income ratio. The lender also considers the borrower's other monthly long-term installment debt payments (such as automobile or school loans or credit card debt), in addition to the housing costs, as a percentage of the borrower's monthly income, known as the back-end, or total debt-to-income ratio. FNMA standard total debt-to-income limits have increased to 42.5% and CalHFA typically allows 45% debt-to-income ratios. Lenders have increasingly been willing to make loans to borrowers at increasingly higher debt-to-income ratios, sometimes as high as 75% of the total gross income. There has been a great deal of discussion among inclusionary

housing program administrators about reasonable debt-to-income limits for BMR buyers. While some have noted that many buyers in the Bay Area have already demonstrated an ability to pay housing costs in the form of rent that exceed 45% of their monthly income. Others maintain that a lower standard is appropriate so that owners can develop and maintain reserves for property maintenance or other needs. We recommend that the City establish a 45% total debt-to-income limit for BMR buyers with incomes below 50% of AMI.

A minimum housing cost to income ratio would require that at least a certain percentage of the borrower's income be used for housing costs, including the mortgage payments, property tax payments, and homeowner association dues. A minimum housing cost to income ratio is used by loan programs, such as those funded by state CalHome or Begin funds, that want to ensure that the limited public funds are only used as gap financing between the borrower's downpayment and the senior lender's loan(s). Since many of the City's BMR buyers may be on fixed incomes and may need all their discretionary income for other needs besides mortgage payments, we do not recommend establishing a minimum housing cost to income limit.

5.2.3.8 Other mortgage loan restrictions

PAHC provides information on its website and in its program workshops for interested buyers and for current BMR owners about predatory lending practices. The City recently developed a policy restricting the type of mortgage financing.

An advisable restriction placed on mortgage financing by local jurisdictions in their inclusionary programs is a requirement that the first mortgage be a fixed interest rate loan. This would protect BMR buyers on fixed-incomes or other types of income that may not be sufficient to cover significant increases in mortgage payments in the future. Other restrictions can include restrictions on loans in which the principal may increase over time, such as negative amortization adjustable rate loans, reverse equity mortgages, and some interest only loans. Some of the newer loan products, such as option payment loans, are extremely risky for a very low, low or moderate-income buyer. The option payment loan allows the borrower to select from different payment options, which include a minimum payment, similar to a credit card minimum payment. Since the minimum payment may not cover the full amount of interest owed, the principal may increase over time. Other new risky loans include the five-year fixed rate that converts to an adjustable rate loan, so that the loan payment may suddenly increase significantly. Another alarming trend in the mortgage lending industry is the prevalence of interest only loans, which do not allow the borrower to build up equity by paying down the principal amount of the loan. It is particularly important for BMR owners whose ability to accumulate equity through appreciation is limited to avoid financing products that do not build equity over time.

State-funded homebuyer programs, such as CalHome or Begin, are required to prohibit first mortgage loans that have negative amortization, principal increases, balloon payments, or

deferred interest payments. The City of Emeryville also restricts interest-only or option ARMS for its low and moderate-income buyers.

City staff has expressed concern about equity lines of credit, for good reason. These loans may be easily increased by merely modifying the promissory note and the City would not be able to prevent this from happening or detect the outstanding balance during a title search.

5.2.3.9 Recommendations:

1. Set income limits for resale units at the same income category as the income category originally required for that particular unit.

2. Reference the requirement that the buyer's income must fall below certain income limits in the Eligibility section of the Manual and include the City's current version of its published income limits for BMR ownership housing in the Manual.

3. Base maximum asset limits to a percentage of median home prices in Palo Alto or Santa Clara County, with a higher asset limit for seniors, such as an asset limit up to a certain percent of the median market rate home value.

4. Deduct assets to be used for the downpayment and closing costs when calculating projected income from assets.

5. Consider increasing the maximum gift limits, but to no more than 50% of the BMR purchase price.

6. If the City adopts a downpayment requirement for BMR ownership units, restrict downpayment funds to meet the City's downpayment requirement from loans or conditional grants.

7. Eliminate the City's current policy requiring non-seniors, those below 62 years of age, to obtain a mortgage loan for at least 50% of the BMR value.

8. Establish a combined-loan-to-value limit for mortgage financings after the purchase of the BMR unit at 95% of the BMR value, or the outstanding balance of the combined loan amounts, whichever is more, for BMR units.

9. Establish a maximum total debt-to-income limit of 45% for buyers of BMR units with incomes below 50% of AMI.

10. Limit first mortgage financing for BMR units to a fixed interest-rate loan for very low or low income buyers.

11. Prohibit loans that increase in size (negative amortization loans, reverse equity mortgages, option adjustable rate mortgages, some interest only loans) or have balloon payments or have huge monthly payment increases (some interest only loans) secured by BMR units.

12. Prohibit equity lines of credit secured by BMR units.

5.3 BMR Purchase Program Resale Procedures

5.3.1 BMR Purchase Program Resale Process

The following summarizes the buyer selection process for BMR units being resold by the BMR owners (referred to in this report as resale units), as described in the Manual. Information on procedures provided to the consultant for preparation of this report but not included in the May 2003 Manual are noted in parentheses. PAHC has subsequently compiled a detailed description of the BMR Purchase Program procedures that were not available for the preparation of this report, but should be incorporated into the Manual, once approved by the City.

1. The BMR owner notifies the City by mail of intent to sell (according to deed restrictions, notice must be by certified mail or personally delivered).

2. The City forwards the notice to PAHC with date stamp of date received.

3. Within 60 days of receipt of the seller's notice of intent to sell, the City notifies the seller of the City's intent to exercise its option to purchase and assign its right to purchase to PAHC.

4. The seller schedules an inspection appointment with the City's Real Property Analyst and PAHC's BMR administrator to inspect the unit for deferred maintenance or damage and to calculate the value of any substantial capital improvements.

5. The City's Real Property Analyst assigns a dollar value to any eligible capital improvements and notifies the seller in writing of any necessary repairs that must be made prior to close of escrow and the depreciated value of eligible capital improvements that may be added to the resale price. (Variations to this process are discussed in Section 3.4 of this report.)

6. PAHC calculates the sales price based on the applicable allowed rate of appreciation, plus any substantial improvements approved by the City; sends the price calculation to the City's Real Property Analyst; and sends a letter informing the seller of the sales price calculation and the BMR sales procedures. PAHC's letter to the seller informs the seller which real estate documents and disclosures are required by law and requires that the seller return a signed Acknowledgement of Sale and Price Calculation Explanation waiving the need for an appraisal to establish a market value below the BMR value and acknowledging that PAHC is not an agent in nor a party to the real estate transaction.

7. The seller returns the signed acknowledgement.

8. PAHC schedules the date for the seller to hold an open house, prepares an Information Packet, and sends the information packet to all households on the waiting list who are eligible for the available unit size. (Current practice is to send the Information Packets to those who are eligible for the available unit size and have indicated on the waiting list application that they desire that unit size.)

9. Once the buyer has been selected by PAHC, PAHC sends a letter to the buyer requesting that the buyer sign a Notification of Eligibility to Purchase form, informing the buyer of the BMR purchase process, informing the buyer that PAHC is not an agent in nor a party to the real estate transaction, and informing the buyer which real estate forms and disclosures will be used in the transaction. The Notification of Eligibility to Purchase form, the real estate contract with various real estate forms and disclosures, and the City's deed restrictions are attached to PAHC's letter to the buyer.

10. The buyer signs and returns the Notification form to PAHC acknowledging that PAHC is not an agent in or a party to the real estate transaction.

11. PAHC schedules the purchase contract meeting between the buyer and seller, assists the seller and buyer in negotiating the purchase contract, and provides the real estate forms and disclosures.

12. The seller opens escrow.

13. PAHC certifies a backup buyer in case the buyer cannot obtain financing or breaches the contract.

14. PAHC provides BMR deed restrictions to the buyer's lender with a request that the lender provide a confirmation of financial information on a Final Certification Form.

15. PAHC contacts the title company to explain the BMR sales process and provides escrow instructions to the title company with instructions for recording: 1) the grant deed with the BMR deed restrictions attached; and 2) the Request for Notice of Default; and 3) a Certificate of Acceptance form signed by the City.

16. PAHC requires the buyer approve various homeowner association documents and real estate disclosures provided by the seller to the buyer (see standard Form #28 in Manual entitled "Certification of Receipt and Approval of Documents" that requires buyers to certify that they approve various real estate documents) and requires that the buyer remove the buyer's financing contingency in the real estate contract.

17. According to the text in the Manual, "When the Buyer has obtained approval for financing from a lending institution, PAHC assigns the right to purchase to the Buyer and the Buyer notifies the Seller that he/she is exercising the right to purchase. The model form letter in the Manual from the buyer to the seller describes a different

process as follows: “As the assignee of the City of Palo Alto, we are notifying you with this letter that I/we exercise the right to purchase this unit.”

18. The seller acknowledges receipt of the buyer’s notice to the seller that the buyer is exercising the right to purchase (See standard Form #31 in the Manual).

19. The City’s Real Property Analyst makes a final inspection of the unit.

5.3.1.1 Buyer Selection Process for Resales

There are primarily two different processes used by other jurisdictions to select the buyer when the BMR unit is being resold by the BMR owner. Other jurisdictions either require that the City or its designated agent select the buyer, as does the City of Palo Alto or they require that the BMR owner select the buyer as long as the buyer’s eligibility is confirmed by the City/County or its designated eligibility certification agent. The advantage of the selection process by the City (or its agent) is that the City can ensure that BMR units are sold to buyers under the City’s designated preferences, such as living or working in the City. Other jurisdictions have chosen to allow the BMR owner to select an eligible BMR buyer to reduce the local jurisdiction’s administrative burden, to reduce the City’s liability, and to allow the owner to have more control over the resale process to be more similar to market-rate ownership. Examples of jurisdictions that allow the owner to select an income eligible buyer include the County of Santa Cruz, the City of Santa Cruz, and the City of Emeryville. The County of Monterey refers people on its waiting list to the BMR sellers.

The City of San Mateo, which has approximately 20-25 BMR resales per year, has a unique process. They retain a local realtor to administer a waiting list for the City, with a detailed preference system, at a fee of $900 per month, plus a 3% commission, paid by the seller, for each sale. City staff noted that the realtor can cover legality/liability issues that may arise in the purchase process. City double-checks the realtor’s applicant eligibility determination and the City documents that she prepares.

5.3.2 Resale Timelines

5.3.2.1 Deadlines in the City’s Deed Restrictions

The City’s deed restrictions (dated 8/93) allow 240 days (eight months) for a resale to occur, from the date the owner initiates the resale process to close of escrow. The 240 day period includes three deadlines:

1. The City, its designee or assignee has the right to exercise the City’s right to purchase the BMR unit by notifying the seller within 60 days after receipt of the notice of intent to sell from the seller,

2. If the City exercises its right to purchase the property, escrow is opened upon delivery to the seller of the notice from the City assignee (buyer) exercising its option to purchase, or as soon thereafter as possible, provided that the opening of escrow shall not be postponed longer that ninety (90) days after the owner is notified of the City's decision to exercise its right to purchase.

3. If the City assigns its right to purchase, the City may postpone opening escrow until an assignee is selected or soon thereafter, as long as escrow closes within 90 days after the seller is notified of the City's exercise of its right to purchase, and within 90 days after escrow is opened, the escrow for purchase of the property closes.

5.3.2.2 Assignment of Right to Purchase

There is conflicting information about the process by which the City's right to purchase is assigned and to whom. PAHC staff states that the City does not assign its right to purchase to PAHC, yet City Real Property staff states that this is always the case.

5.3.2.3 Implementation of Resale Deadlines

The Manual does not explain how the City's 60 day deadline to exercise its option to purchase and assign its right to purchase relates to the other steps in the resale process. It would be helpful to clarify what occurs prior to the City's notification to the seller. The Manual also does not mention how the 90 day deadline to open escrow is implemented and who is responsible for meeting the deadline. The deadlines established in the deed restrictions are confusing and could be clarified as part of the other revisions to the deed restrictions following this report. This clarification in the resale process could then be addressed in the Manual.

PAHC staff has worked to reduce the length of time involved in the resale process. According to PAHC reports, the resale of units sold to BMR buyers in the 2003/04 fiscal year, excluding a unit purchased by the City, took an average of almost six months to close escrow, while the average length of time in the 2004/05 fiscal year dropped to less than four months.

5.3.2.4 Delays in the Resale Process Due to the Price Determination

There are a number of reasons why the resale process can be delayed. In the City's resale process, as in many other jurisdictions, the owner gives notice to the local jurisdiction of intent to sell prior to establishing the resale price, which may include a determination of credits for capital improvements and/or deductions for needed repairs. The unit cannot be marketed or offered to an eligible buyer for purchase until the sales price has been set. According to PAHC and City staff, this is the area in which there is the most disagreement between the seller and the City in the resale process.

Another delay in the process, according to PAHC staff, is scheduling the City's inspection of the unit prior to calculating the capital improvements credit and any deductions for repairs. PAHC has consistently reported that scheduling the City's inspection and obtaining the City's inspection report has added a month or more to the resale process. This is an important part of the process and we do not recommend eliminating the City's inspection of the unit.

The City of Morgan Hill resale process avoids this problem. Its deed restrictions add another phase to the process prior to the owner's notice of sale, which is triggered by a Notice of Contemplated Sale. After the Notice of Contemplated Sale, City inspects the unit, the owner provides documentation of capital improvements, and City sets price. Only after this phase is completed, may the owner then provide a Notice of Intent to Sell. Besides allowing enough time for the necessary tasks to be completed, it also provides incentive for the seller to be cooperative.

5.3.2.5 Delays In the Buyer Selection Process

Once the sales price has been set, PAHC generally identifies an eligible buyer prior to assigning its right to purchase to that eligible buyer. This is another area that the City staff has identified as a time-consuming part of the process. In our experience in processing applications for BMR buyers, this process can involve processing several applications before identifying a buyer who has adequate income and an acceptable credit history to be able to obtain mortgage financing, has sufficient funds for the downpayment and closing costs, and is interested in proceeding with the purchase.

5.3.2.6 Seller Cooperation

Many jurisdictions report problems with seller cooperation during the resale process. A common comment from inclusionary program operators is that some buyers are enthusiastic about the program when they are able to purchase a home at a below-market-rate price but lose their appreciation of the program when they are not allowed to sell their home at a market-rate price. In other cases, sellers, who have been renting the BMR unit in violation of the BMR program, have been uncooperative.

Resales as a result of the death or incapacitation of the BMR owner also have been a difficult process, according to PAHC staff. Units may be left vacant for extended periods of time while the owner is in an assisted care facility or after the owner's death while the property is going through the probate process. Units have been left vacant, sometimes for three or four years, when the owner is residing permanently in another location or long after the probate process has been completed. Disputes among heirs have also delayed the process of either disposing of the property or an heir legally occupying the property. These units are at risk of foreclosure if the heirs are unable or unwilling to continue making mortgage, property tax and/or homeowner association dues payments. Even with cooperative heirs, difficulties arise in the resale process

if the heirs live outside of the area and are attempting to handle the sale and any necessary improvements from out of the area or out-of-state. PAHC staff has noted that such units are frequently in worn condition and continue to deteriorate further if unoccupied for extended periods.

To improve seller cooperation during the sale of the BMR unit, some jurisdictions have added language to their deed restrictions, such as extending City performance deadlines if the seller does not meet performance deadlines for the seller, requiring that the seller comply with scheduled inspections (appraisal, termite, etc.), and requiring that the unit be in a showable condition. Unfortunately, while extended deadlines may help to ensure that the City maintain its rights under the deed restrictions, it negatively impacts the buyer who has scheduled movers, taken time off from work, and given notice to vacate their current rental unit, if the originally scheduled close of escrow is delayed.

Annual monitoring, annual newsletter mailings, and changes to the deed restrictions discussed in Section 4.2 would reduce the vacancy rate among the City's BMR units. A real estate agent could handle the owner's responsibilities when the owner is incapacitated or if the owner is deceased. These responsibilities, such as holding the open house, scheduling inspections, scheduling the appraisal, and managing repair work, are difficult to perform from a distance. The more equity that the owner has in the BMR property, the more likely there will be funds to cover the cost of a real estate agent. We believe that if the City decides to increase the appreciation rate for BMR units and allow commissions for real estate agents, the cooperation from sellers will improve.

5.3.2.7 FNMA Compliance

The length of time for the resale process allowed in the deed restrictions is an issue in terms of obtaining FNMA approval of the City documents. Lenders are required to certify that a city inclusionary program complies with FNMA guidelines in order to offer loan products at the favorable terms and underwriting standards available for FNMA-conforming loans. This makes a significant difference for the BMR buyers in terms of qualifying for a loan and reducing their housing costs associated with the loan. <u>FNMA guidelines limit the time in which a local jurisdiction may exercise its right to purchase to 90 days from the time the unit is offered for sale.</u>

Because other jurisdictions have established resale timelines to comply with FNMA guidelines and because these shorter deadlines can make it difficult for a jurisdiction to locate an eligible buyer, some jurisdictions have allowed the seller to select a buyer, whose eligibility to purchase a BMR unit must be certified by the BMR program administrator.

5.3.3 Use of Real Estate Agents in BMR Resales

5.3.3.1 Real Estate Agents Retained by Sellers or Buyers

While the Manual states that "no commission is received from the sale of these (the new BMR) units" and in the City's Sales Procedures for New Below Market Rate (BMR) Ownership Units, the City states that the developer's agents may not receive commissions from the sale of the BMR units, it is not clear whether payment of real estate brokers' sales commissions is allowed in the resale of BMR units. According the deed restrictions, the closing costs of the transaction are required to be distributed according to the custom in practice in Palo Alto. Typically a closing cost paid by the seller is the real estate broker's fee for both the seller and the buyer.

The form letters in the Manual inform the seller that "your attorney or any other professional you wish to engage is welcome to participate in the process in any way you see fit." and inform the buyer that "your attorney or any other professional you wish to engage is, of course, encouraged to participate in the sale in anyway you see fit." Even if payment of real estate commissions is allowed, the current level of appreciation may be prohibitively low to cover the cost of the brokers' commissions.

5.3.3.2 PAHC's Role in the Real Estate Transaction

PAHC's role in the resale transaction as described in the Manual is confusing. PAHC informs the seller and buyer that PAHC is an intermediary in the real estate transaction and is not an agent, does not receive a commission, is not a party to the contract, and cannot provide legal advice. Yet, according to the Manual and according to the City's Real Property staff, the City assigns its right to purchase to PAHC.

PAHC performs many of the roles typically performed by a real estate agent. PAHC sends form letters to the seller and buyer telling them which real estate forms will be used in the transaction, advises seller of what homeowner association documents the seller is required to provide and what real estate disclosure forms are required by law, instructs the seller to complete disclosure forms provided by PAHC, and advises the buyer what the seller is required to do, such as providing homeowner association documents and real estate disclosures to the buyer. According to PAHC staff, PAHC assists in the preparation of the purchase contract and disclosures. According to PAHC reports, PAHC has in one instance performed additional services for a seller at no charge to the seller (holding the open house, scheduling inspections (termite, HOA, and appraisal) and managing repairs in order to facilitate the resale process and has indicated that they would charge a seller for such services in the future.

It is not clear how PAHC determines how the real estate forms and disclosures that they provide to the sellers and buyers meet current requirements. For example, the Lead Based Paint Hazards disclosure for sales of housing built pre-1978 was updated in January 2003, according

to the California of Association of Realtors (CAR) website, yet the form included in the May 2003 Manual is a year 2000 version of this disclosure form. While we claim no expertise in the types of forms that are currently required in a real estate transaction, we recommend that a licensed real estate broker, who has the expertise and liability insurance, be the party advising parties in a real estate transaction concerning the types and versions of forms required by law.

PAHC's website and workshop materials provide very useful information to the buyers on homeowners' associations, sources of funds for downpayment and closing costs, and predatory lending practices. And in practice, PAHC provides valuable assistance to the buyers by working closely with them and their lenders throughout the loan qualification process. However, despite the best intentions and commitment by PAHC staff to assist BMR buyers, PAHC's, the City's, the BMR owner/seller's, and the BMR buyer's separate interests may vary and professional representation for the seller and/or the buyer may be helpful. And, as legal requirements are constantly changing, a real estate professional could take on the responsibility of ensuring that the seller's required disclosures are provided to the buyers.

5.3.3.3 Practices in Other Jurisdictions

Other inclusionary programs have required that a real estate agent participate in the transaction. The City of Sunnyvale adds a $3,000 real estate broker's fee to the resale price and requires that a real estate agent participate in the transaction whose fee is paid by buyer so that the agent represents the buyer's interest and so that the fee can be financed by the buyer. Sunnyvale staff feels strongly that first-time homebuyers require extra hand-holding and need representation, dealing with the developer or selling owner, assisting with the walk through, etc. A consultant retained by the City of Sunnyvale reports that Sunnyvale has no problem finding brokers to work with the BMR sellers, due to the buyers' participation in five educational workshops and loan preapprovals. The City of Emeryville also requires that a real estate agent be involved in the real estate transaction to ensure that the seller complies with the disclosures and other reporting forms required by law. Morgan Hill requires the selling owner to provide a purchase contract and other documents as required under federal, state or local law. In our firm's experience, BMR owners have been able to advertise their units on Craig's list, significantly reducing the real estate agent's time involved in handling the sale, so that the agents are willing to handle the transaction for reduced broker fees.

While the City of Davis does not require that a real estate agent be involved in the transaction, it does encourage it, so that homebuyers may get advice on the purchase contract, assistance with qualifying for a mortgage, and are provided the required disclosures. Other jurisdictions have also added the cost of the real estate commission to the resale price, such as the County of Santa Cruz and the City of Santa Cruz.

5.3.3.4 Recommendations:

1. Clarify in the Manual the assignment of the City's right to purchase process and implementation of the various resale deadlines.

2. Revise the City's deed restrictions to include a Notice of Contemplated Sale process and include implementation procedures for this process in the Manual.

3. To improve seller cooperation during the sale of the BMR unit, add language to the City's deed restrictions, such as extending City performance deadlines if the seller does not meet performance deadlines for the seller, requiring that the seller comply with scheduled inspections (appraisal, termite, etc.), and requiring that the unit be in a showable condition.

4. Consider allowing BMR owners to select income-eligible BMR buyers certified by the City's program administrator.

5. Require that a real estate agent be retained by the BMR seller and/or the BMR buyer.

6. Consider allowing the cost of a real estate broker's commission to be added to the BMR resale price.

6. POLICY ANALYSIS – PROGRAM IMPLEMENTATION

This chapter covers a range of topics related to the current BMR program as it is applied to new residential construction, leading to conclusions and recommendations on how the program might be modified in the future. It provides an analysis of the current BMR "build" requirements for multi-family projects, as well as an analysis of the various in-lieu provisions and other options for off-site compliance. Two sections present a range of policy options for adjusting the program in the future.

An understood underlying goal of the consultant work program, particularly as it relates to this portion, is that the BMR program as currently embodied in the Housing Element of the General Plan, will be reconfigured in an Ordinance, and certain provisions may be updated or modified. Goals for the ordinance, as relates to applying the program to new residential construction, may be summarized:

- Maintain or strengthen the basic BMR requirements, as described in the 2002 Housing Element Program H-36.
- Simplify the requirements and terms so that the program requirements are easier for City staff to administer and are clearer and more predicable for developers.
- Maximize opportunities for enhancing both unit production and in-lieu payment revenues.

This chapter is organized as follows:

6.1 Multi-family For Sale Units – Market Findings and Implications
6.2 Multi-family For Sale Units – BMR In-Lieu Program
6.3 Multi-family For Sale Units – BMR Equivalents
6.4 Single Family Detached – BMR Program
6.5 Policy Options for Modifying the BMR Ownership Program
6.6 Policy Options for Increasing the Supply of BMR Rental Units

The research and analysis contained in this section was conducted during the early months of 2005. As such, market conditions and sales prices of market rate units reflect values that have increased significantly since that time. All findings and recommendations have been reviewed in light of trends since the research was conducted. KMA believes that none of the findings and recommendations contained in this report are undermined or invalidated by the use of the early 2005 material. Most findings and recommendations regarding valuations have been rendered more conservative (or lower) than would be the case using data at this time, May 2006, when the complete report is being assembled.

6.1 Multi-Family For Sale Units – Market Findings and Implications

An understanding of current market products, pricing structure, and unit sizes is fundamental to an understanding of the impact of the BMR program on market rate projects. With a grasp of the current market and some extrapolation to market conditions in other cycles, we can better evaluate Program H-36 of the Housing Element. This market information has also been used to inform our analysis in Section 3.1.1 on pricing of newly built ownership BMR units and related topics, such as our evaluation of the in-lieu program and of the BMR program's application to projects.

This KMA survey is primarily focused on condominium and townhome units. Any survey of new residential development activity in Palo Alto is constrained by the few projects that proceed within a timeframe of a few years, or a market cycle. The For Sale market is far more active than the rental market at this time, but even then, the number and range of projects is limited. Following the market findings, we will provide our opinion of how conditions might change looking ahead. The market material was prepared in the winter of 2005.

Ideally, we would have a survey of new projects in Palo Alto that covers a range of products (condominiums at different densities and unit sizes) and a cross-section of locations within Palo Alto. Since projects are so few, we also look at resales and sales of new units in other nearby or similar communities. Tables 6-1 through 6-6 on (pages 6-7 to 6-11) provide the hard data.

6.1.1 Market Survey Findings

New Condominiums in Palo Alto (Table 6-1)

- Two high-end, new construction condominiums by Summerhill Homes located in the University Avenue area of Palo Alto recently sold out for between $625 and $850 per square foot. The developer of 800 High Street, a high-density luxury condominium project currently under development on the southern edge of downtown, expects sales prices (per square foot) comparable to the Summerhill developments.

- This places new condominiums near the downtown at $625 per square foot at a minimum with some units over $700 and $800 per square foot.

- Unit sizes in the Summerhill projects are large. T he one bedroom units are slightly over 1,000 square feet, the average two bedroom unit is at least 1,400 square feet, and the three bedroom units over 2,000 square feet. The units at 800 High Street are planned to be smaller, but still larger than downtown condominiums in most cities.

- One recent condominium project in Menlo Park has similarly large units and prices in the higher $600 per square foot range.

- Total sales prices per unit in the Summerhill and Menlo Park projects have started in the high $700,000's with the larger units selling for well over $1 million.

New Condominiums in Other Communities (Table 6-2)

- In Cupertino, a project with a density comparable to the Summerhill Homes condominiums sold out in February 2004 at an average price of $444 per square foot.

- In San Carlos, the units in a luxury high-density project with subterranean parking recently sold for between $500 and $575 per square foot.

- We would expect units located in Palo Alto to sell for a significant premium over units in Cupertino and San Carlos, but these projects bear out the high price structure throughout the better locations in the Peninsula and Silicon Valley.

Resales of Condominiums in Palo Alto (Table 6-3)

- Units in the Silverwood Condominiums have resold recently for around $425 per square foot. This project has subterranean parking and is of a density comparable to the Summerhill projects. The Silverwood project is now over five years old.

New Townhomes in Palo Alto (Table 6-4)

- There have not been any recent townhouse projects in Palo Alto from which to determine market sales prices. However, Trumark Companies is currently developing 76 townhomes in south Palo Alto; current estimates of sales prices from the developer are in the range of $700,000 to $900,000 per unit or $575 to $625 per square foot.

- Townhomes are a lower density product, usually not located in downtown areas. In most markets, townhomes are larger on average than condominiums for the same unit type. (The two-bedroom condominium is usually smaller than the two-bedroom townhome.) However, in Palo Alto there seems to be little difference. Condominium units are being developed as large as townhomes.

New Townhomes in Other Communities (Table 6-2)

- In Cupertino, large townhomes in a 56-unit project sold out in October 2003 for $410 per square foot.

- Two townhome projects are currently under construction in San Jose and Sunnyvale. The San Jose project, located in West San Jose, lists sales prices averaging $460 per square foot. The Sunnyvale project listed sales prices averaging $445 per square foot at the time of this survey.

- In these other communities, the size difference between condominiums and townhomes follows the more typical pattern.

- These projects demonstrate that other communities are selling new townhomes well over the $400 per square foot range. Similar units in Palo Alto would be expected to have a significant premium.

Resales of Townhomes in Palo Alto (Table 6-3)

- Recent resales at The Classics at Barron Park, in south Palo Alto, average around $447 per square foot. This project is now over 5 years old.

- Recent resales at the Wisteria, also five years old and in south Palo Alto, have been averaging about $580 per square foot.

Summary

- At this time, there does not appear to be a notable difference between condominiums and townhomes in either the unit sizes or pricing. This may partly be due to the fact that the condominium examples all have superior downtown proximity which is valued in the Palo Alto market. Stacked condominiums in less desirable locations within Palo Alto could be smaller and/or less expensive.

- The few new projects for which there is information suggest minimum pricing at $600 per square foot. Many units are priced in excess of $700 per square foot. Units outside proximity to the downtown could be a notch under, say $575 per square foot.

The current market in Palo Alto is driven, as always, by highest and best use. The For Sale market is so strong that large units bearing million dollar type prices are selling readily. In typical markets there are upper limits to condo or townhome sales prices, before bumping into the Single Family Detached alternative, but none appear evident in Palo Alto. As a result, developers are choosing to develop large units which are less expensive to build per square foot than small units, particularly when parking is taken into account. (For a residential area of 12,000 square feet, eight units at 1,500 square feet each are more profitable than 12 units of 1,000 square feet each.) Developers seek to maximize the allowable floor area ratio (FAR), but build well below the maximum zoned density (units per acre) in almost all cases.

Other Economic Cycles

By all accounts the current strength of the For Sale market nationally, statewide, and locally, is phenomenal and is particularly pronounced in premier locations like Palo Alto and the city of San Francisco. There is general agreement among forecasters that at some point the housing

market will cool down (or do something more dramatic) once mortgage rates no longer allow incomes to stretch to such high prices.

Without venturing into the realm of predictions, we believe that it would be prudent to analyze the BMR program using a range of unit sizes and prices that represent some backing off, or modification of the current levels. The BMR program update and adjustments, as translated into an ordinance, will be used for a time period of many years, spanning other economic cycles. We therefore examine the provisions of Housing Element H-36 as they relate to condominiums and/or townhomes that both reflect the current market activity and units that are smaller and a little less expensive per square foot.

For analysis purposes (In Lieu Fees and BMR application to projects), we will therefore draw from the two market prototypes, 800 High Street and the Trumark townhomes but use smaller, slightly less expensive units, such as:

Chart 6.1.1-A. Modified Prototype, Multi-Family Ownership Units

Unit Size	Sq.Ft.	Price per Sq.Ft.	Total Price
One Bedroom	800	$600	$480,000
Two Bedroom	1,100	$590	$650,000
Three Bedroom	1,300	$570	$740,000

Source: Keyser Marston Associates, Winter 2005

6.1.2 Affordability of Market Rate Units

It is always instructive in developing public policy and related programs to understand the affordability thresholds of the local market. The figures in chart 6.1.2-A provide an analysis of the original two bedroom prototypes, drawn from 800 High and the Trumark townhomes, and the modified prototype, as described above. For each prototype, the chart presents the income required, and how the income relates to the Area Median Income (AMI).

In performing the analysis, we have modified the underwriting terms and assumptions that the City uses to better reflect lending practices for higher priced units. KMA assumes a 6.00% interest rate, a 20% down payment, 35% of income allowable for housing expenses, HOA dues of $350 per month, and no mortgage insurance (due to the higher down payment). Current practices can be even more generous; sometimes allowing more than 35% of income outside of consideration of property taxes.

The results for the average two bedroom unit for a three person household are as follows:

Chart 6.1.2-A. Affordability of Two Bedroom Units

	Sq.Ft.	Price per Sq.Ft.	Total	Income Req.	% AMI
	(2 BR Unit)			(3 Person HH)	
Average Market Condominiums	1,250	$625	$781,000	$158,000	167%
Minimum Market Condo	1,235	$570	$700,000	$143,000	157%
Modified Prototype	1,100	$590	$650,000	$134,000	141%
Sources: Keyser Marston Associates; market research performed January/February 2005; 2005 median income levels.					

In other words, in 2005 average new market rate townhomes and condominiums require an income in excess of 165% of the Area Median Income. The minimum two bedroom unit currently under development may be available for $700,000 to households, or around 157% of median. The modified prototype, a hypothetical unit that does not represent highest and best use of most properties in Palo Alto, might be a $650,000 unit, affordable to households around 140% of median income.

6.1.3 The 120% to 150% AMI Tier

This analysis suggests that there is a huge spread of households with incomes in excess of the maximum for the moderate income category BMR but not high enough to afford the minimum market rate unit. Specifically, it appears that households earning between 120% and 150% AMI are priced out of the For Sale housing market in Palo Alto. This tier, sometimes referred to as “Workforce” housing, could be incorporated into the housing program in Palo Alto, as has been done in a few other jurisdictions in California. One possibility would be to have projects that deliver units in this price range subject to reduced or no BMR requirements.

The deed restriction and resale program components are usually altered for the 120% to 150% AMI Tier. Typically, the deed restriction includes an equity share formula at resale instead of long-term affordability restrictions. In the event that the market shifts so significantly as to make market rate housing affordable to this income tier, the City could suspend the program. If this is a topic of interest in Palo Alto, more analysis to confirm the tier definition and BMR requirements would be in order.

TABLE 6-1
MARKET SALE PRICES - NEW CONDOMINIUM UNITS
PALO ALTO AND MENLO PARK
BMR PROGRAM UPDATE
CITY OF PALO ALTO

NEW CONDOMINIUMS IN PALO ALTO
(Market Rate Units Only)

Unit Mix		SF	Price	$/SF	
Weatherly by Summerhill Homes					
30 Units					University Avenue area.
One Bedroom	2	1,003	$795,000	$793	Project sold out May 2004.
Two Bedroom	13	1,358	$900,000	$663	Parking garage.
Two Bedroom	6	1,393	$895,000	$642	28 du/acre.
Two Bedroom	3	1,432	$885,000	$618	
Two Bedroom	3	1,454	$900,000	$619	
Two Bedroom	3	1,690	$1,020,000	$604	
	30			$653	
Woodmark by Summerhill Homes					
36 Units Total; 20 Units Released					University Avenue area.
Two Bedroom	6	1,638	$1,350,000	$824	Project sold out November 2004.
Two Bedroom	6	1,850	$1,325,000	$716	Subterranean parking.
Two Bedroom	2	2,176	$1,815,000	$834	31 du/acre.
Three Bedroom	6	2,096	$1,795,000	$856	
	20			$802	
800 High Street (Market Rate Units Only)					
50 Market Rate Units; Under Construction					University Avenue area.
Two Bedroom (1 Bath)	1	845	N/A	N/A	Not yet marketed. Developer
Two Bedroom (2 Bath)	31	1,321	N/A	N/A	estimates sales prices comparable
Three Bedroom (2 Bath)	18	1,658	N/A	N/A	to the Weatherly and Woodmark
	50				projects. Project also contains 9
					BMR units.

OTHER NEW CONDOMINIUMS

Menlo Park

Menlo Square, by Oak Grove and Merrill Associates					
25 Units (Total Units)					Downtown Menlo Park.
Two Bedroom	8	1,189	$765,000	$643	Project sold out March 2004.
Three Bedroom	8	1,480	$939,000	$634	Subterranean parking.
Three Bedroom	9	1,598	$925,000	$579	25 du/acre. Project includes some
	25			$617	BMR units.

Source: The Meyers Group, 800 High Street developer, January/February 2005

TABLE 6-2
MARKET SALE PRICES - NEW TOWNHOMES/CONDOMINIUMS
OTHER COMMUNITIES
BMR PROGRAM UPDATE
CITY OF PALO ALTO

CONDOMINIUMS

	Unit Type		SF	Price	$/SF	
Cupertino	**Tra Vigne Villas**					Project sold out Feb 2004.
	46 Units					Density: 34 du/gr. acre
	Two Bedroom	10	938	$450,000	$480	
	Two Bedroom	12	973	$462,000	$475	
	Two Bedroom	10	1,088	$465,000	$427	
	Two Bedroom	14	1,198	$483,000	$403	
		46			$444	
San Carlos	**Pacific Hacienda**					Project sold out.
	89 Units					Density: 63 du/gr. acre
	One Bedroom		774	$388,000	$501	Stacked flats with subterranean
	Two Bedroom		1,096	$628,000	$573	parking.
	Two Bedroom		1,258	$638,000	$507	
	Two Bedroom		1,268	$649,000	$512	

TOWNHOMES

Location	Unit Type		SF	Price	$/SF	
Cupertino	**Astoria**					
	56 Units					Project sold out Oct 2003.
	Three Bedroom	16	1,456	$609,000	$418	Density: 13.5 du/gr. acre
	Three Bedroom	17	1,589	$667,000	$420	
	Four Bedroom	6	1,649	$651,000	$395	
	Four Bedroom	17	1,801	$709,000	$394	
		56			$409	
San Jose	**Siena at Saratoga**					
	77 Units					Under construction/currently selling.
	Two Bedroom		1,350	$663,000	$491	Luxury townhomes.
	Three Bedroom		1,460	$700,000	$479	
	Three Bedroom		1,650	$735,000	$445	
	Four Bedroom		1,900	$810,000	$426	
Sunnyvale	**Danbury Place**					
	168 Units					Under construction/currently selling.
	Two Bedroom		1,579	$695,000	$440	Density: 19 du/gr. acre.
	Three Bedroom		1,582	$717,000	$453	
	Three Bedroom		1,658	$725,000	$437	
	Four Bedroom		1,651	$743,000	$450	

Source: Meyers Group, Developers, RealQuest, KMA, January/February 2005

TABLE 6-3
RESALES OF NEWER TOWNHOMES / CONDOMINIUM UNITS
PALO ALTO
BMR PROGRAM UPDATE
CITY OF PALO ALTO

RESALE CONDOMINIUMS IN PALO ALTO

Unit Type	SF	Price	$/SF	
Silverwood Condominiums				California Avenue area. Built in 2000.
Two Bedroom	1,557 SF	$664,500	$427	Subterranean parking.
Three Bedroom	1,833 SF	$775,000	$423	33 du/acre. 10 units resold between March 2002 and December 2004.

RESALE TOWNHOMES IN PALO ALTO

Unit Type	SF	Price	$/SF	
The Classics at Barron Park				South Palo Alto. Built in 1999.
Three Bedroom	1,794 SF	$802,250	$447	17.5 du/acre. 8 units resold between May 2002 and February 2005.
Wisteria				South Palo Alto. Built in 1999.
Three Bedroom	1,541 SF	$894,500	$580	12.5 du/acre. 6 units resold between September 2002 and January 2005.

Source: Dataquick, January/February 2005

TABLE 6-4
NEW TOWNHOMES
PALO ALTO
BMR PROGRAM UPDATE
CITY OF PALO ALTO

TOWNHOMES

Unit Type		SF	Price	$/SF	
East Meadow Drive (Market Rate Units Only)					
65 Units; Under Construction					Developer anticipates the units will sell for between $700,000 and $900,000, or approximately $570 to $620 per square foot. Project also contains 12 BMR units.
Two Bedroom	15	1,235	N/A	N/A	
Three Bedroom	49	1,449	N/A	N/A	
	64 *				

Source: The Trumark Companies, developer of the East Meadow Drive project, January/February 2005.

TABLE 6-5
MARKET SALES PRICES: TWO BEDROOM UNIT
BMR PROGRAM UPDATE
CITY OF PALO ALTO

		Average Market Condominium	Minimum Market Condo	Modified Prototype
	Typical Unit Size	1,250 SF	1,235 SF	1,100 SF
	Sales Price/SF	$625	$567	$591
	Sales Price	$781,000	$700,000	$650,000
	Down Payment @ 20%	$156,200	$140,000	$130,000
	Loan Amount	$624,800	$560,000	$520,000
	Interest Rate	6.00%	6.00%	6.00%
	Taxes	1.25%	1.25%	1.25%
	Effective Annual Rate	7.25%	7.25%	7.25%
	Annual Payments	$51,147	$45,842	$42,568
(1)	HOA Dues	$4,200	$4,200	$4,200
	Total Housing Costs	$55,347	$50,042	$46,768
	% of Income Spent on Hsg.	35%	35%	35%
	Annual Income Required	$158,134	$142,978	$133,622
	Sales Price to Income	4.94	4.90	4.86
(2)	Area Median Income (AMI)	$94,950	$94,950	$94,950
	Percent of AMI	167%	151%	141%

(1) Assumes HOA dues of $350 per month.
(2) Three person household

Source: KMA, May 2005.

6.2 Multi-Family For Sale Units – BMR In-Lieu Program

This section provides an evaluation of the current In-Lieu provisions of the BMR program as applied to Multi-Family For Sale projects, a discussion of in-lieu provisions and practices elsewhere and concludes with an identification of options for modifying the program to increase in-lieu fee revenues. In-lieu fees applied to single family detached housing projects are discussed in Section 6.4 and 6.6.

6.2.1 Evaluation of the Current Program

6.2.1.1 The Current Program

The current in-lieu provision in Program H-36 of the Housing Element allows for an in-lieu payment alternative "if the City determines that no other alternative is feasible." It is our understanding that it has been the practice of the City to allow in-lieu payments for single family detached projects and for occasional other circumstances. In addition, the in-lieu provision is more widely used for satisfying the requirement for fractional units.

The current program establishes the in-lieu fee as a percentage of the sales price of the market rate units. The most recent Housing Element sets fee amounts as follows:

- When the BMR requirement is 15%, the fee is equal to 7.5% of the greater of the actual sales price or the fair market value of each unit.
- When the BMR requirement is 20%, as in projects over 5 acres, the fee is 10% of the greater actual sales price or the fair market value of each unit.
- When the BMR requirement is 25%, as can occur with the removal of rental units, the fee is equal to 12.5% of the actual sales price or the fair market value of each unit.

This evaluation seeks to determine how these percentages of sales price relate to foregone sales revenues in terms of affordability gaps, or the difference between the BMR sales price and the market sales price, allocated to the market rate units. The sales prices tested in the evaluation are drawn from the conclusions of the market survey summarized in 6.1. BMR prices are the set of figures recommended in 3.1.1 (instead of the range used by the City), keyed to the annually published median income schedule for Santa Clara County.

6.2.1.2 Methodology

The methodology employed is to set up a hypothetical project and examine the three percentage requirements, using market sales prices and BMR sales prices.

The prototypical project we selected is 40 units, allowing an even number of units for the requirements and no fractional unit issues. The relationships established by the analysis would apply to a project of any number of units, but this prototype illustrates the relationships in readily understandable quantities. Table 6-6 (on page 6-20) provides a project description and the affordability requirements at the 15%, 20%, and 25% levels, dividing the affordable units into tiers for Lower and Higher Moderate per Program H-36.

The unit sizes used in the prototypical project are smaller (in terms of square footage) than typical projects in Palo Alto even in multi-family projects. We decided to use the smaller units (in terms of square feet) because it is a more conservative approach, (i.e., smaller units produce lower affordability gaps than larger units), and because these size units might be produced in Palo Alto in other market cycles. The analysis using smaller size units produces lower affordability gaps because the affordable price for each unit type is set by formula keyed to the Area Median Income (AMI) and household and unit size, irrespective of the number of square feet. The two bedroom unit affordable price at 90% AMI is $259,000; this price distributed on 1,100 square feet is $235 per square foot ($259,000 ÷ 1,100); the same price applied to a 1,500 square feet is $172 per square foot ($259,000 ÷ 1,500). The market price of For Sale units, on the other hand, is heavily driven by a per square foot market value.

To simplify the analysis, we have established the affordable sales prices by number of bedrooms using the 90% of AMI average approach, as recommended in 3.1.1 (on page 3-1). Table 6-7 (on page 6-21) provides a calculation of the affordable sales price per square foot compared to the market price per square foot and indicates the gap at the square foot level. The per square foot market prices are drawn from the market survey (6.1). We have selected a hypothetical minimum of $550 per square foot of building area, recognizing that the market is not producing anything that low at this time. To test a higher level, we have selected $700 per square foot as a level that represents where some of the more expensive projects are selling at this time. Use of this range illustrates how the in-lieu provision works relative to market price. For simplicity we use the same market sales price per square foot for all units.

The affordability gap per square foot column on the far right of Table 6-7 is derived by subtracting the affordable or BMR price per square foot from the market price per square foot. As indicated above, market rate units with more square foot area would reduce the affordable price per square foot and thus increase the gap per square foot. At the Lower Moderate tier (90% AMI), the gap is $310 per square foot at the lower end of market rate prices and $460 per square foot at the higher end of market rate prices. At the Higher Moderate tier (110% AMI), the gap ranges from $250 per square foot to $400 per square foot.

Tables 6-8 through 6-10 (on pages 6-22 to 6-24) compare the affordability gap approach to the percent of sales price approach that is embodied in the Palo Alto program. An average of the four unit sizes (one to four bedrooms) and gap per square foot is used and compared to the

market sales price of the same hybrid unit. Using the information from Table 6-7, individual unit sizes may be tested independently using the same procedure.

6.2.1.3 Findings

When the prototypical 40 unit project is tested with the 15% BMR requirement (Table 6-8), we find that current in-lieu requirement (7.5% of sales price) is less than the foregone revenue associated with the build requirement. The total affordability gap of the 6 BMR units, distributed among the 40 units in the project, represents 7.9% of the sales price when the lower market price of $550 per square foot is used. At the $700 sales price, the affordability gap rises to 9.4% of the market sales price. In other words, the Palo Alto Program H-36 in lieu requirement of 7.5% of the sales price is slightly lower on average than the build requirement at the lower end of market prices ($550 per square foot) and considerably lower than the build requirement at the higher market prices ($700 per square foot).

A similar pattern is determined from the analyses of the 20% and 25% BMR requirements compared to the 10% of sales price and 12.5% of sales price BMR in-lieu provision. Tables 6-9 and 6-10 (on pages 6-23 and 6-24) present these analyses using the same methodology and calculations used in Table 6-8.

For example, with the 20% requirement, if the market sales price is $550 per square foot, the total BMR requirement equates to 10.7% of the sales price. If market values are at the $700 per square foot level, then the BMR requirement equates to 12.7% of the sales prices, significantly higher than the current requirement of 10%.

Furthermore, it is notable that as the sales price goes up and/or the unit size goes up, the discrepancy between the City's current BMR in-lieu requirement as a percent of sales price (of the market rate unit) and the real foregone revenue to the developer widens. The higher the price of the market rate unit (whether due to more square feet or higher value per square foot), the more the City's current BMR In Lieu as a percent of sales price is an understatement of the foregone revenue to the project.

6.2.1.4 Conclusion

The percent of market sales price in the current in-lieu provision of Program H-36 is confirmed as not excessive compared to delivery of BMR units. In fact, the percent of market sales price appears less than the "cost" (in terms of foregone sales revenues) to the project of providing units at the price range of units in Palo Alto at this time. As the market price increases, the "cost" to deliver BMR units increases as a percent of sales price.

6.2.2 In-Lieu Payment Alternative Structures

6.2.2.1 Overview

This section provides a summary of the basic alternative structures for in-lieu payment as provided in inclusionary housing ordinances in California. Should Palo Alto wish to explore alternatives to the current percent of sales price program, the major options are summarized for consideration. The models in Table 6-11 identify six alternatives, although these are based on four conceptual alternatives:

1. Percent of sales price of market rate units, the current rule in Palo Alto
2. Percent of building permit valuation
3. Actual gap calculated for each project
4. Gap established by the city based on market averages and charged one of three ways:
    a. Based on the unit(s) owed
    b. Cost charged per market rate unit built
    c. Cost charged on a per square foot basis on the market rate units.

Table 6-11 presents the summary information. We indicate sample jurisdictions that use the approach, and the advantages and disadvantages of each structure. The column on the right provides an indication of what the comparable charge might be in Palo Alto, based on the in-lieu analysis provided herein.

6.2.2.2 Percent of Sales Price of Market Rate Unit

This approach, long used by Palo Alto, has been adopted in a number of other jurisdictions, most of them on the San Francisco Peninsula. Most jurisdictions that use the percentage approach use percentages far lower than the 7.5% used in Palo Alto, but most programs are only 10% BMR programs and none of the others have average market prices as high as Palo Alto. That said, most jurisdictions that utilize a percentage are probably undercharging for the in-lieu equivalent compared to what an analysis of current market rate housing would support.

The principal advantages appear to be:

- The percentage captures higher fees for the more valuable locations or projects; also, larger units yield higher fees.
- It is easily understood and communicated.

- Developers can easily predict what will be owed.
- It appears fairly easy to apply and collect, based on our conversations with the City.
- The payment can be collected at close of escrow (or the "back end") which is far preferable to the developer than paying at building permit issuance.

The principal disadvantages appear to be:

- The City may not collect the full affordability gap for the higher priced units, as demonstrated in the analysis.
- Collection occurs at close of escrow upon sale of the unit, rather than earlier at the issuance of the building permit. This means that the City must have security for the fees as well as later receipt of funds by the City. Also the City must have the cooperation of the developer and escrow agent to insure collection.
- Perhaps there are other aspects of the current program to be weighed in consideration of any change, but we are not aware of them.

6.2.2.3 Percent of Building Permit Valuation

This is an approach used by several jurisdictions that would appear to have similarities to percent of sales price. At the payment of the building permit, a fee is owed, usually a percentage of the permit value. For example, Half Moon Bay's in-lieu fee is set at 20% of the building permit valuation for the market rate units. This approach is easily understood and is administered at the building permit counter without further planning staff involvement.

Building permit valuation is usually determined from a chart keyed to certain construction features. Valuation often bears only a partial resemblance to real construction cost, and only a distant relationship to sales price. In luxury homes, high end finishes, appliances and other amenities are not fully reflected in the permit valuation. In addition, land and all indirect costs are not included in valuation, with the result that the building permit valuation tends to run somewhere in the range of 35% to 45% of the actual sales price in a market like Palo Alto's. Therefore, to be comparable to the current program (of 7.5% sale price), Palo Alto would have to charge somewhere in the range of 15% to 25% of the building permit valuation. (To illustrate with figures selected for ease of arithmetic, a house selling for $1 million might have a permit valuation of $350,000 to $450,000. To capture the $75,000 in BMR in-lieu fees owed in the current formula, the charge on the permit would amount to 20% of the $350,000 permit or 17% of the $450,000 permit.) More research on specific experience on building permit valuation compared to end sales price in Palo Alto would be required if the City were to pursue this approach.

While the administration of this approach is easier than Palo Alto's current approach, it is less sensitive to capturing higher fees for higher value units and therefore probably not preferable to the current program, but could be useful for projects of less than 5 units.

6.2.2.4 Actual Gap for Each Project

A few jurisdictions, such as Santa Cruz County and the City of Sunnyvale, compute the difference between the market rate sales prices and the affordable sales prices for each project and charge accordingly. The Town of Danville's in-lieu fees are the difference between the "estimated total cost of a new, non-BMR unit" and the affordable sales price.

Section 17.10.034 of the Santa Cruz County Code stipulates that when an in-lieu payment is allowed "the fee is keyed to the average price of the ultimate market rate units or lots." An encumbrance is placed on each unit in the project for its proportionate share of the affordability gap and recorded in a Participation Agreement. In practice, it appears that the County prepares a schedule each year, listing the market prices in brackets, starting at $420,000 going up to $2 million, bumping up every $20,000 to $40,000 in sales price with the fee indicated (much like an income tax schedule).

This approach has the clear advantage of capturing the full gap associated with the development of higher price units. See Section 6.5 for recommendations for Palo Alto.

6.2.2.5 Average or Blended Gap for Each Affordable Unit Owed

This is a fairly common approach that has the advantage of being straightforward and relatively easy to understand. The jurisdiction typically establishes a fee amount per unit owed and then periodically updates it. Some cities adjust it annually via a formula; others use a more market-based approach on a regular basis. San Francisco, for example, posts the gap per unit owed on its web page (http://www.sfgove.org/site/moh_page.asp?id=36090) and updates it periodically.

In the case of a tiered program such as Palo Alto's, where at the 15% BMR rate, two thirds are at one income level and the other third at a different level, a blended gap would be computed. Drawing from the analysis in the previous section, and Table 6-8, a blended gap for Palo Alto per unit owed, for the average 1,175 square foot market rate unit selling at $550 per square foot, is $340,000 ($2,044,500 owed for 6 BMR units, or $340,000 per unit owned).

Generally, when an average gap, or blended gap, is set by a jurisdiction, there is an attempt to move toward the lowest common denominator, or the low end of the market spectrum. This is why we have used $550 per square foot in the example. If a more midpoint type market rate pricing average is used, then less expensive units could be over burdened. Since the developer always has the choice of building the unit instead if it is perceived as less burdensome, the City is probably on solid ground legally if it bases its in-lieu equivalents using a higher market rate

average. Politically, the use of higher market rate averages tends to be unpopular, however. Palo Alto could readily consider its gap analysis at market rate values of $600 or $625 per square foot since most of the market activity is in that price range or above.

Advantages to this approach include ease of communication and administration. Generally, payments are collected at building permit, but can be tied to occupancy permit, or apportioned to the market rate units and encumbered as is done in Santa Cruz County.

The gap per unit owed approach also is readily applicable to fractional units. If the average or blended per unit gap fee owed is $340,000, then for a project that owes 0.2 fractional units over and above the units provided on site, the fractional unit charge is $68,000 ($340,000 x 0.2).

Jurisdictions that use this approach generally do an update every few years, depending on the rate of change on the market place. Therefore, disadvantages of this approach are that it requires regular economic analysis of the market. Also, in markets with a wide range of pricing, the wider affordability gaps associated with both the modest and the luxury end are not fully captured.

6.2.2.6 Average or Blended Gap/Fee for Each Market Rate Unit

This approach is a variation of the one above, only the payment or fee is expressed per market rate unit. There are over 130 BMR or Inclusionary programs in California jurisdictions and a great many use this “in-lieu” structure. Many of them allow fee payment as of right, instead of building units and many charge small fees that bear little resemblance to the costs of delivering the units. Some jurisdictions, such as Carlsbad, do however set their fees at, or close to “Full Cost Recovery” and adjust them regularly.

Since this approach is so similar to the prior approach expressed per unit owed, the advantages and disadvantages are the same.

6.2.2.7 Average or Blended Gap/Fee per Square Foot on Market Rate Units

This approach is a refinement of the fee per market rate unit, setting a fee per square foot based on an average unit size. The average fee is assessed on the market rate unit on a per square foot basis, allowing collection of larger fees for larger units.

By collecting per square foot, there is usually no differentiation between higher value locations or higher quality projects and lesser value locations or quality levels. The City of Pasadena recently enacted an inclusionary program that has four geographic zones within the city. Each zone has its own fee structure to address substantial variation in real estate values from one zone to the next. The most expensive zone of the city has a per square foot fee structure that is now $40 per square foot, while the lowest value zone in the city has no fee. Since developers are always permitted to “fee out” in Pasadena, projects in the highest fee zones are still paying

fees rather than building units. Market pressures for more units continue to be intense in these zones, despite the high fees.

This approach has the same advantages and disadvantages to the two prior approaches with one major exception. This approach does allow the city to capture higher fees for larger units and thus would be appropriate for the Palo Alto market, where developers tend to build relatively large units.

6.2.2.8 Summary

Should Palo Alto wish to consider other approaches to its in-lieu methodology, the most attractive options would appear to be either the individual project calculation or the per square foot version of the average gap. See Section 6.5 for more discussion of individualized project analysis.

TABLE 6-6
PERCENT OF SALES PRICE IN-LIEU FEE EQUIVALENCY ANALYSIS
BMR PROGRAM UPDATE
CITY OF PALO ALTO

Project Description

Number of Units	40
Unit Sizes	
One Bedroom	800 SF
Two Bedroom	1,100 SF
Three Bedroom	1,300 SF
Four Bedroom	1,500 SF

BMR Requirements

	At 15%		At 20%		At 25%	
	Units	Percent	Units	Percent	Units	Percent
Lower Moderate	4	10%	6	15%	8	20%
Higher Moderate	2	5%	2	5%	2	5%
Total	6	15%	8	20%	10	25%

TABLE 6-7
PERCENT OF SALES PRICE IN-LIEU FEE EQUIVALENCY ANALYSIS
BMR PROGRAM UPDATE
CITY OF PALO ALTO

Affordability Gaps with Market Prices @ $550/SF

Lower Moderate (Set @ 90% of AMI)

Unit Type	Size	BMR Price[1]/Unit	BMR Price/SF	Market Price/SF	Affordability Gap/SF
One Bedroom	800 SF	$224,500	$281	$550	$269
Two Bedroom	1,100 SF	$259,000	$235	$550	$315
Three Bedroom	1,300 SF	$293,400	$226	$550	$324
Four Bedroom	1,500 SF	$320,900	$214	$550	$336
Average	*1,175 SF*	*$274,450*	*$239*	*$550*	*$310*

Higher Moderate (Set @ 110% of AMI)

Unit Type	Size	BMR Price[1]/Unit	BMR Price/SF	Market Price/SF	Affordability Gap/SF
One Bedroom	800 SF	$285,800	$357	$550	$193
Two Bedroom	1,100 SF	$327,800	$298	$550	$252
Three Bedroom	1,300 SF	$369,900	$285	$550	$265
Four Bedroom	1,500 SF	$403,600	$269	$550	$281
Average	*1,175 SF*	*$346,775*	*$302*	*$550*	*$250*

Affordability Gaps with Market Prices @ $700/SF

Lower Moderate (Set @ 90% of AMI)

Unit Type	Size	BMR Price[1]/Unit	BMR Price/SF	Market Price/SF	Affordability Gap/SF
One Bedroom	800 SF	$224,500	$281	$700	$419
Two Bedroom	1,100 SF	$259,000	$235	$700	$465
Three Bedroom	1,300 SF	$293,400	$226	$700	$474
Four Bedroom	1,500 SF	$320,900	$214	$700	$486
Average	*1,175 SF*	*$274,450*	*$239*	*$700*	*$460*

Higher Moderate (Set @ 110% of AMI)

Unit Type	Size	BMR Price[1]/Unit	BMR Price/SF	Market Price/SF	Affordability Gap/SF
One Bedroom	800 SF	$285,800	$357	$700	$343
Two Bedroom	1,100 SF	$327,800	$298	$700	$402
Three Bedroom	1,300 SF	$369,900	$285	$700	$415
Four Bedroom	1,500 SF	$403,600	$269	$700	$431
Average	*1,175 SF*	*$346,775*	*$302*	*$700*	*$400*

[1] See Chart 3.1.D.

TABLE 6-8
PERCENT OF SALES PRICE IN-LIEU FEE EQUIVALENCY ANALYSIS
BMR PROGRAM UPDATE
CITY OF PALO ALTO

40 Unit Project
In-Lieu Requirements 15% BMR (7.5% Sales Price)

Market Rate Sales @ $550/SF (Lower Market Values)

Affordability Level	# of Units	Average Size	Affordability Gap/SF	Total Gap	Notes
Lower Moderate	4	1,175 SF	$310	$1,457,000	
Higher Moderate	2	1,175 SF	$250	$587,500	
Total BMR Units Owed	6				
			Total:	$2,044,500	Sum of gaps at both tiers
			Average per BMR Unit:	$340,750	Total gap divided by 6 BMR units
			Total Per Market Unit:	$51,100	Total gap divided by 40 total units
			Total Per SF:	$43	Divided by average unit size (1,175 SF)
			Percent of Market Sales Price:	7.9%	Sales price is 1,175 SF * $550 per SF, or $646,250 $51,100 is 7.9% of $646,250

Market Rate Sales @ $700/SF (Higher Market Values)

Affordability Level	# of Units	Average Size	Affordability Gap/SF	Total Gap	
Lower Moderate	4	1,175 SF	$460	$2,162,000	
Higher Moderate	2	1,175 SF	$400	$940,000	
Total BMR Units Owed	6				
			Total:	$3,102,000	Sum of gaps at both tiers
			Average per BMR Unit:	$517,000	Total gap divided by 6 BMR units
			Total Per Market Unit:	$77,600	Total gap divided by 40 total units
			Total Per SF:	$66	Divided by average unit size (1,175 SF)
			Percent of Market Sales Price:	9.4%	Sales price is 1,175 SF * $700 per SF, or $822,500 $77,600 is 9.4% of $822,500

TABLE 6-9
PERCENT OF SALES PRICE IN-LIEU FEE EQUIVALENCY ANALYSIS
BMR PROGRAM UPDATE
CITY OF PALO ALTO

40 Unit Project
In-Lieu Requirements 20% BMR (10% Sales Price)

Market Rate Sales @ $550/SF (Lower Market Values)

Affordability Level	# of Units	Average Size	Affordability Gap/SF	Total Gap	
Lower Moderate	6	1,175 SF	$310	$2,185,500	
Higher Moderate	2	1,175 SF	$250	$587,500	
Total BMR Units Owed	8				
			Total:	$2,773,000	Sum of gaps at both tiers
			Average per BMR Unit:	$346,625	Total gap divided by 8 BMR units
			Total Per Market Unit:	$69,325	Total gap divided by 40 total units
			Total Per SF:	$59	Divided by average unit size (1,175 SF)
			Percent of Market Sales Price:	10.7%	Sales price is 1,175 SF * $550 per SF, or $646,250 $69,325 is 10.7% of $646,250

Market Rate Sales @ $700/SF (Higher Market Values)

Affordability Level	# of Units	Average Size	Affordability Gap/SF	Total Gap	
Lower Moderate	6	1,175 SF	$460	$3,243,000	
Higher Moderate	2	1,175 SF	$400	$940,000	
Total BMR Units Owed	8				
			Total:	$4,183,000	Sum of gaps at both tiers
			Average per BMR Unit:	$522,875	Total gap divided by 8 BMR units
			Total Per Market Unit:	$104,575	Total gap divided by 40 total units
			Total Per SF:	$89	Divided by average unit size (1,175 SF)
			Percent of Market Sales Price:	12.7%	Sales price is 1,175 SF * $700 per SF, or $822,500 $104,575 is 12.7% of $822,500

TABLE 6-10
PERCENT OF SALES PRICE IN-LIEU FEE EQUIVALENCY ANALYSIS
BMR PROGRAM UPDATE
CITY OF PALO ALTO

40 Unit Project
In-Lieu Requirements 25% BMR (12.5% Sales Price)

Note: Applies only to Program H-29 projects and Density Bonus rates.

Market Rate Sales @ $550/SF (Lower Market Values)

Affordability Level	# of Units	Average Size	Affordability Gap/SF	Total Gap	
Lower Moderate	8	1,175 SF	$310	$2,914,000	
Higher Moderate	2	1,175 SF	$250	$587,500	
Total BMR Units Owed	10				
			Total:	$3,501,500	Sum of gaps at both tiers
			Average per BMR Unit:	$350,150	Total gap divided by 10 BMR units
			Total Per Market Unit:	$87,538	Total gap divided by 40 total units
			Total Per SF:	$75	Divided by average unit size (1,175 SF)
			Percent of Market Sales Price:	13.5%	Sales price is 1,175 SF * $550 per SF, or $646,250 $87,538 is 13.5% of $646,250

Market Rate Sales @ $700/SF (Higher Market Values)

Affordability Level	# of Units	Average Size	Affordability Gap/SF	Total Gap	
Lower Moderate	8	1,175 SF	$460	$4,324,000	
Higher Moderate	2	1,175 SF	$400	$940,000	
Total BMR Units Owed	10				
			Total:	$5,264,000	Sum of gaps at both tiers
			Average per BMR Unit:	$526,400	Total gap divided by 10 BMR units
			Total Per Market Unit:	$131,600	Total gap divided by 40 total units
			Total Per SF:	$112	Divided by average unit size (1,175 SF)
			Percent of Market Sales Price:	16.0%	Sales price is 1,175 SF * $700 per SF, or $822,500 $131,600 is 16.0% of $822,500

TABLE 6-11
COMPARISON CHART
IN-LIEU PAYMENT ALTERNATIVES
BMR PROGRAM UPDATE
CITY OF PALO ALTO

Approach and Brief Description	Sample Jurisdictions	Advantages	Disadvantages	Approx. Rate for Palo Alto (for 15% BMR) *
I. Percent of Sales Price of Market Rate Unit	Palo Alto, Menlo Park, Mountain View	Higher value units yield higher fees. Larger size units yield higher fees. Easily understood	May not capture full gap for highest end units. Administration – must place lien on escrow	7.5% of sales price
II. Percent of Building Valuation	Half Moon Bay, San Carlos, Napa	Larger size units yield higher fees. Easily understood Easy to administer; collect at bldg. permit	Permit valuation doesn't capture higher value locations.	20% - 30% of bldg permit valuation to approximate existing program.
III. Actual Gap for Each Project	Santa Cruz County, Danville, Sunnyvale	Higher value units yield higher fees. Larger size units yield higher fees. Captures full gap	More difficult to explain and predict. More administration	Varies with each project
IV. Gap Established for Each Affordable Unit Owed (Usually based on average unit)	Monterey County, San Jose Redev., Davis, San Francisco	Easy to administer; collect at Bldg. Permit Easy to apply to fractional unit	No ability to capture higher fee for larger or more valuable units Needs annual/periodic adjustment	$340,750 @ $550/SF market sales price
V. Gap/Fee Established for Each Market Rate Unit Built (Variation on IV above; gap allocated to market rate units.)	Novato, Irvine, Carlsbad	Easily understood Easy to administer; collect at bldg. permit Easy to apply to fractional units	No ability to capture higher fee for larger or more valuable units. Needs annual/periodic adjustment	$51,500 per unit @ $550/SF market sales price
VI. Gap/Fee Established per Square Foot on Market Rate Units	Pasadena, Walnut Creek, West Hollywood, San Diego, Santa Rosa	Easily understood Easy to administer; collect at bldg. permit Captures more for large units	Needs annual/periodic adjustment May not fully capture full gap for higher end units	$43 per sq. ft. @ $550/SF market sales price

* See Table 3. Based on average 1,175 SF unit and blending of Lower and Higher Moderate Tiers. Market real estate at $550/SF of sales price.

6.3 Multi-Family For Sale Units – BMR Equivalents

6.3.1 Use of the Information

This section summarizes affordability gap and BMR equivalents among various For Sale unit sizes, price ranges and affordability levels.

This material has been prepared to assist staff by providing technical information for use in negotiating application of the BMR program to residential projects. Even if the program is substantially simplified, there will still be a role for interpretations and trade-offs when applying the BMR requirements to projects. In any BMR program, the number of units required at each affordability level and unit size (number of bedrooms) rarely results in simple round numbers of units. With the multiple tiers of affordability that the Palo Alto program has, fractional units will almost always be the result of program application. As a result, the process of applying the BMR program will always entail some level of selection among possibilities and thus, negotiation.

If the City elects to use this data, or similar data, it needs regular updating, say, every three or four years as relationships change with the market and median income. As such, this type of information is probably best left in administrative documentation rather than the ordinance itself.

6.3.2 Methodology

The methodology used to develop the equivalencies is to compare market sales experience, BMR affordable sales levels and establish affordability gaps, or “costs” in terms of forgone sales revenue per unit. Since these affordability gaps vary depending on unit size, price level, and affordability level, an array of affordability gaps are generated which can be compared to one another.

Table 6-12 (on page 6-31) summarizes the affordable sales prices by number of bedrooms and affordability level. Per our earlier input, we are recommending use of the mid point of the income ranges — 90% of Area Median Income (AMI) level for Lower Moderate and 110% AMI for Higher Moderate.

For the market rate units, a first step is a summary of the market material developed in the Market Conditions Section, 6.1. Table 6-13 (on page 6-32) presents market rate units for three prototype situations plus the hypothetical minimum unit that was developed in the in-lieu analysis (6.2). Of the three market products, the townhomes and downtown condominiums have similar total prices on average which are higher-end (recognizing that some projects will sell units that command yet higher price tags). The lower portion of the table presents hybrid or average of the three market rate projects on the upper portion of the table. The hypothetical minimum units are not being built in the current market because they do not represent highest and best use, but because this may be an extraordinary point in time in the For Sale market

(mostly due to the very low mortgage rates), we present this lower set of values. Also, by using two sets of market rate units with very different sales prices, we illustrate how the relationships change depending on market prices relative to affordable prices.

6.3.3 Affordability Gaps

Table 6-14 (on page 6-33) summarizes the affordability gaps for the Higher End Market Units and the Hypothetical Market Minimum Units. These figures are based on the difference between the sales prices (Table 6-13) and the BMR affordable prices (Table 6-12). This is a very simple and useful table. It could be revised and reproduced annually, or every two years, with the new median income levels and survey of updated market activity.

The charts have been developed using two different assumptions regarding market values. The Higher End Market Units have sales prices in the $600 to $700 per square foot range while the Hypothetical Market Minimum Units have sales prices in the $500 per square foot range. Ultimately, we find that the factors do not vary substantially from one set of market assumptions to another. The relationships hold fairly close together with the two market values.

Looking at the figures for the Higher End Market Units in Table 6-14, we can see the magnitude of the gap for the various unit sizes at the two affordability levels. It is evident that a one bedroom unit at 90% AMI has essentially the same gap as a two bedroom unit at 110% AMI.

The next set of tables translates these relationships to ratios and we illustrate how to read them. It may be easier, however, to work directly off the figures in Table 6-14 when applying affordability requirements. For example, if a project computes to 2.2 two bedroom units owed at 90% AMI, we could multiply the affordability gap of $520,000 by 2.2 to obtain an obligation of $1,144,000. Then we could identify other combinations that total the same cumulative affordability gap. For example, at 90% AMI, a one bedroom and a three bedroom ($450,500 + $606,600 = $1,057,100) would be roughly equivalent to 2.1 two bedrooms (2.1 x $521,000 = $1,094,100).

6.3.4 Equivalency Charts

Tables 6-15, 6-16 and 6-17 (on pages 6-34 to 6-37) express the relationships embodied in Table 6-14.

With all of the tables, the user needs to start by finding the appropriate unit owed to the City per application of the BMR program, indicated by 1.00. Then equivalencies are expressed as factors that can be multiplied or divided depending on the direction.

The first two tables illustrate moving from one unit size (or number of bedrooms) to another and then from one affordability level to another. The third table combines all the variables into a single chart.

6.3.5 Unit Size Equivalents

Table 6-15 (on page 6-34) presents bedroom size relationships. Using the two bedroom unit at 90% AMI example, we see that the two bedroom unit is equivalent to .86 one bedroom units or 1.16 three bedroom unit. If one bedroom units are to be built instead, then divide the number of two bedroom units required by .86. In this bedroom analysis, it is evident that the relationships are highly similar for both affordability levels and both market products.

One could readily develop an across the board average. With a little rounding to favor the larger units we find:

	One BR	**Two BR**	**Three BR**
Unit Owed to the City			
One Bedroom	1.00	1.17	1.40
Two Bedroom	0.85	1.00	1.20
Three Bedroom	0.70	0.85	1.00

Note: Assumes units owed and units delivered are at the same affordability level.

6.3.6 Affordability Level Equivalents

Table 6-16 (on page 6-35) shows the relationships moving from one affordability level to another, staying within the same unit size. We find that the relationships hold even for each unit size, but differ from one set of market sales price assumptions to another. Using the Higher End Market Units, we find that a Lower Moderate Unit (90% AMI) is equivalent to 1.16 Higher Moderate Units (110% AMI). Going the other direction, the relationship is reversed.

With less expensive sales prices the affordability gaps are smaller resulting in greater differences going from one affordability level to another.

6.3.7 Combined Equivalents

Table 6-17 (on page 6-36) merges both the bedroom size and affordability relationships. Several examples illustrate how the chart may be used.

- Suppose the developer owes three one bedroom units at 110% AMI but the City or the developer is interested in providing three bedroom units instead, but fewer of them. To determine the equivalency, we find the appropriate row for one bedroom units at 110% AMI (fourth row down) and scroll across for the 1.00 factor. We can see that for each one bedroom unit, the developer could do 0.64 three bedroom units at 90% AMI or 0.73 three bedroom units at 110% AMI. Since the developer owes three one bedroom units, instead he could build two three bedroom units (0.64 times 3 = 1.92). This could be

preferable to the developer since parking might favor fewer units, while the City might have a policy objective of achieving larger units.

- If the unit owed in the BMR application is a two bedroom at 90% AMI, then seek out the 1.00 two bedroom unit in the 90% portion of the table and read the relationships horizontally from there. With the Higher End Market Units, the two bedroom, at 90% AMI is very close to a three bedroom at 110% AMI (which has a ratio of 1.02).

- If the unit provided (or what the developer wants to build) is the starting place that is different from the normal BMR application, locate the 1.00 factor and seek the equivalent and go vertically and multiply or go horizontally and divide by the factor. Say a developer wants to build one bedroom units instead of three bedroom units at 90% AMI as required of the BMR program. To be equivalent, the developer should build at 1.35 one bedroom units for each one three bedroom unit owed (1.0 divided by 0.74) at 90% AMI, or 1.56 one bedroom units at 110% AMI (1.0 divided by 0.64).

The chart is more useful when several units are to be considered so that fractions may sum to a reasonable whole unit, or close enough for reasonable rounding.

If the two charts with the differing assumptions as to the sales price of market rate units are compared, it can be seen that the factors are very similar. In other words, use of the Higher End Market Unit chart in Table 6-17 could be useful for all practical applications in Palo Alto, and the other may be disregarded, other than for illustrating the consistency of the relationships.

Again, this information is meant as a tool and needs to be reconsidered regularly in light of changing market conditions and adjustments to the Area Median Income. From 2004 to 2005, for example, the Area Median Income did not change but sales prices of market rate units saw major escalation, meaning affordability gaps grew larger. In other cycles, the dynamics could be different.

6.3.8 Uses of the Equivalency Information

The primary use of the equivalency information would be in applying the BMR requirements to projects when the number of units required does not result in round numbers or when either the developer or the City would prefer to provide units of different size or different affordability level.

The charts in Tables 6-15, 6-16 and 6-17 are possibly best used for quick interpretations of trade-off among units and affordability levels. A more accurate and easier to use approach when there are many units of varying numbers of bedrooms and affordability levels would be to use the figures in Table 6-14 and compute the total gap and distribute it among units through a negotiation process. If the City were to establish the affordability gaps based on the projected market sales prices in each individual project, then the City could fully recapture the BMR obligations and have more room to negotiate affordability levels and number of bedrooms.

The recommendation contained in Section 6.5 is for a customized analysis for each project. Such an analysis would allow the City and developer to work with the relationships and trade-offs illustrated in this discussion of equivalencies.

TABLE 6-12
FOR-SALE UNITS - AFFORDABLE PRICES
BMR EQUIVALENCY ANALYSIS
BMR PROGRAM UPDATE
CITY OF PALO ALTO

BMR Sales Prices for New Units (Based on 2005 income levels) [1]

Lower Moderate: 90% of Median Income

One Bedroom	$224,500
Two Bedroom	$259,000
Three Bedroom	$293,400

Higher Moderate: 110% of Median Income

One Bedroom	$285,800
Two Bedroom	$327,800
Three Bedroom	$369,900

[1] Per KMA recommendation in 3.1.1 and also as used in 6.2 In-Lieu Analysis.

TABLE 6-13
AVERAGE MARKET SALES PRICES
BMR EQUIVALENCY ANALYSIS
BMR PROGRAM UPDATE
CITY OF PALO ALTO

	Average Size (SF)	Average Market Sales Price (/SF)	Market Sales Price
Townhome			
Two Bedroom	1,300 SF	$600	$780,000
Three Bedroom	1,550 SF	$580	$900,000
Downtown Condominium			
One Bedroom	1,000 SF	$675	$675,000
Two Bedroom	1,250 SF	$625	$781,000
Three Bedroom	1,450 SF	$625	$906,000
Condominium Outside of Downtown			
One Bedroom	900 SF	$650	$585,000
Two Bedroom	1,100 SF	$600	$660,000
Three Bedroom	1,300 SF	$575	$748,000
Higher End Market Average			
One Bedroom	950 SF	$710	$675,000
Two Bedroom	1,200 SF	$650	$780,000
Three Bedroom	1,425 SF	$632	$900,000
Hypothetical Market Minimum			
One Bedroom	800 SF	$550	$440,000
Two Bedroom	1,100 SF	$550	$605,000
Three Bedroom	1,300 SF	$550	$715,000

Source: Market research performed January, February 2005.

TABLE 6-14
AFFORDABILITY GAP PER UNIT
BMR EQUIVALENCY ANALYSIS
BMR PROGRAM UPDATE
CITY OF PALO ALTO

AFFORDABILITY GAPS [1]

	90% of AMI	110% of AMI
Higher-End Market Average		
One Bedroom (950 SF)	($450,500)	($389,200)
Two Bedroom (1,200 SF)	($521,000)	($452,200)
Three Bedroom (1,425 SF)	($606,600)	($530,100)
Hypothetical Market Minimum		
One Bedroom (800 SF)	($215,500)	($154,200)
Two Bedroom (1,100 SF)	($346,000)	($277,200)
Three Bedroom (1,300 SF)	($421,600)	($345,100)

[1] Equals the difference between the affordable sales price (Table 6-12) and the average market rate sales price (Table 6-13). (Table 6.3.2-B less Table 6.3.2-A.)

TABLE 6-15
EQUIVALENCIES BETWEEN UNIT TYPES (NUMBER OF BEDROOMS)
BMR EQUIVALENCY ANALYSIS
BMR PROGRAM UPDATE
CITY OF PALO ALTO

Comparing Bedroom Sizes

	Value of Units Provided		
Higher-End Market Unit	One Bedroom	Two Bedroom	Three Bedroom
Lower Moderate (90% of AMI)			
Units Owed to the City:			
One Bedroom	1.00	1.16	1.35
Two Bedroom	0.86	1.00	1.16
Three Bedroom	0.74	0.86	1.00
Higher Moderate (110% of AMI)			
Units Owed to the City:			
One Bedroom	1.00	1.16	1.36
Two Bedroom	0.86	1.00	1.17
Three Bedroom	0.73	0.85	1.00
Hypothetical Market Minimum			
Lower Moderate (90% of AMI)			
Units Owed to the City:			
One Bedroom	1.00	1.61	1.96
Two Bedroom	0.62	1.00	1.22
Three Bedroom	0.51	0.82	1.00
Higher Moderate (110% of AMI)			
Units Owed to the City:			
One Bedroom	1.00	1.80	2.24
Two Bedroom	0.56	1.00	1.24
Three Bedroom	0.45	0.80	1.00

TABLE 6-16
EQUIVALENCIES BETWEEN INCOME LEVELS (SAME UNIT TYPES)
BMR EQUIVALENCY ANALYSIS
BMR PROGRAM UPDATE
CITY OF PALO ALTO

Comparing Affordability Levels

Higher-End Market Unit

One Bedroom

A Lower Moderate Equals:	1.16	Higher Moderate Units.
A Higher Moderate Equals:	0.86	Lower Moderate Units.

Two Bedroom

A Lower Moderate Equals:	1.15	Higher Moderate Units.
A Higher Moderate Equals:	0.87	Lower Moderate Units.

Three Bedroom

A Lower Moderate Equals:	1.14	Higher Moderate Units.
A Higher Moderate Equals:	0.87	Lower Moderate Units.

Hypothetical Market Minimum

One Bedroom

A Lower Moderate Equals:	1.40	Higher Moderate Units.
A Higher Moderate Equals:	0.72	Lower Moderate Units.

Two Bedroom

A Lower Moderate Equals:	1.25	Higher Moderate Units.
A Higher Moderate Equals:	0.80	Lower Moderate Units.

Three Bedroom

A Lower Moderate Equals:	1.22	Higher Moderate Units.
A Higher Moderate Equals:	0.82	Lower Moderate Units.

TABLE 6-17
EQUIVALENCIES BETWEEN INCOME LEVELS AND UNIT TYPES
BMR EQUIVALENCY ANALYSIS
BMR PROGRAM UPDATE
CITY OF PALO ALTO

Higher-End Market Unit

Unit Owed:	Unit Provided: 90% AMI One Bedroom	90% AMI Two Bedroom	90% AMI Three Bedroom	110% AMI One Bedroom	110% AMI Two Bedroom	110% AMI Three Bedroom
90% AMI One Bedroom	1.00	1.16	1.35	0.86	1.00	1.18
90% AMI Two Bedroom	0.86	1.00	1.16	0.75	0.87	1.02
90% AMI Three Bedroom	0.74	0.86	1.00	0.64	0.75	0.87
110% AMI One Bedroom	1.16	1.34	1.56	1.00	1.16	1.36
110% AMI Two Bedroom	1.00	1.15	1.34	0.86	1.00	1.17
110% AMI Three Bedroom	0.85	0.98	1.14	0.73	0.85	1.00

TABLE 6-17
EQUIVALENCIES BETWEEN INCOME LEVELS AND UNIT TYPES
BMR EQUIVALENCY ANALYSIS
BMR PROGRAM UPDATE
CITY OF PALO ALTO

Hypothetical Market Minimum

Unit Owed:	Unit Provided: 90% AMI One Bedroom	90% AMI Two Bedroom	90% AMI Three Bedroom	110% AMI One Bedroom	110% AMI Two Bedroom	110% AMI Three Bedroom
90% AMI One Bedroom	1.00	1.61	1.96	0.72	1.29	1.60
90% AMI Two Bedroom	0.62	1.00	1.22	0.45	0.80	1.00
90% AMI Three Bedroom	0.51	0.82	1.00	0.37	0.66	0.82
110% AMI One Bedroom	1.40	2.24	2.73	1.00	1.80	2.24
110% AMI Two Bedroom	0.78	1.25	1.52	0.56	1.00	1.24
110% AMI Three Bedroom	0.62	1.00	1.22	0.45	0.80	1.00

6.4 Single Family Detached – BMR Program

This section covers several topics with respect to the BMR program and its application to single family detached units. This section draws heavily from material in the previous two sections (6.2 and 6.3).

Single family detached units in luxury residential markets that have BMR programs raise a number of issues in application. In Palo Alto, these issues are particularly acute. New single family homes have such high market values, usually at least $1.5 million that BMR program goals and public policy are not well served by the City requiring BMR units on site. With the Palo Alto requirement that BMR units be identical to the other units in the project, application of the BMR requirement on site is particularly problematic. Instead, other approaches that generate resources for increasing the supply of BMR units elsewhere are more efficient and appropriate. It is our understanding that the City has, in the past, employed a range of practices such as in-lieu fees, land dedication, allowing construction of zero lot line or duplex units for on-site compliance, and outright exemption below various threshold size projects.

6.4.1 Current Requirement and Application Situations

There are at least three different development scenarios with respect to new Single Family Detached (SFD) units currently built in Palo Alto and how the BMR program is applied.

- Small projects of individual SFD homes. The Palo Alto program now applies to projects of five units or more. Projects of four or less units are exempt.

- SFD units as a component of a large project that includes other housing products such as townhomes or other attached units. It is our understanding that large projects often have a SFD component that is used to buffer the higher density units from adjacent single family neighborhoods. The BMR requirement applies equally to the SFD units along with all the other units.

- Subdivision of lots for SFD homes. H-36 currently specifies that when three or more lots are subdivided there must be a parcel transfer (i.e. land dedication) or in lieu-payment. In some cities, this situation would be resolved by requiring a percentage of lots to have deed restrictions requiring that the homes built on them meet BMR affordability limitations. For a market like Palo Alto's, this solution raises the same issues referenced earlier with luxury homes.

In all three of these situations, the practice of the City in recent years has been to negotiate additional units in the case of projects that also have attached units or to accept in lieu fees. BMR program in-lieu payments are a principle source of funding for program administration and also a source of revenue for subsidizing Very Low Income rental projects. Because in-lieu payments on single family detached units represent a major revenue source to support the

City's affordable housing program, it has been the practice of the City to generally accept in-lieu payments for SFD units that are subject to the BMR requirement.

6.4.2 BMR Prices and Affordability Gaps

6.4.2.1 BMR Prices

Affordable or BMR sales prices for SFD units are the same as for condominium units, all driven by the income definition (percent of Area Median Income or AMI), household size and number of bedrooms. As with condominiums, the BMR price is irrespective of the number of square feet in the unit (only the number of bedrooms determines the price).

BMR Affordable Prices for units of three and four bedrooms per 2005 income levels are indicated below. Single family detached homes of less than three bedrooms are no longer being built in Palo Alto and most other places in the Bay Area. The prices for three and four bedroom units are those determined in Section 3.1.1 and used in 6.2.2 and 6.3.3:

	90% AMI	110% AMI
Three Bedroom Unit	$293,400	$369,900
Four Bedroom Unit	$320,900	$403,600

6.4.2.2 Market Prices and Affordability Gaps

Newer single family detached homes in Palo Alto are selling at prices in excess of $700 per square foot. With unit sizes usually generous (3,000 square feet or more), sales prices for new single family homes frequently exceed $2 million. Since the market price range is so broad relative to the BMR affordable price, it is of little value to try to derive average affordability gaps, or average difference between market and affordable prices. Table 6-18 (on page 6-43) illustrates the condition. For example, a four bedroom unit at 1,600 square feet at $700 per square foot would sell for $1.26 million while a four bedroom at 4,000 square feet, also selling at $700 per square foot would sell for $2.8 million, producing gaps of $929,000 for the smaller square foot unit and nearly $2.5 million for the larger square foot unit. Even the gap per square foot varies by over $100.

6.4.2.3 In-Lieu Options – Forms of Application

The in-lieu payment alternative structure outlined in 6.2 for multi-family for sale units is essentially the same with some additional comments as follows:

6.4.2.4 Percent of Sales Prices per the Current Formula

If the current in-lieu formula of 7.5% of the sales prices, etc., understates the forgone revenue to the developer of providing BMR units in higher priced condominiums, the 7.5% in-lieu fee rate produces an even greater understatement of the real foregone revenue when delivering BMR SFD units because unit sizes are likely to be so much larger. Nonetheless, charging a percent of the sales price is readily applicable to SFD units in all situations; the City is currently experiencing and does capture BMR fees proportional to unit size and/or value. As indicated in the condominium analysis, the percent rate could be stepped up as the sales price escalates as a variation to the current program to capture even higher fees.

6.4.2.5 Percent of Building Permit Valuation

This procedure can be applied to SFD as well as to condominiums. Because the building permit valuation is based primarily on the type of construction and square feet, it does not cover a large portion of that which constitutes the value of a house — land, location/neighborhood, finishes and appliances, all manner of amenities and extras that add to value. (On the other hand, construction costs can be driven up by site conditions that do not necessary translate to value such as a steep hillside; however, the land price should theoretically adjust for this.) See 6.2.2.3 (on page 6-16) for discussion.

If the City wishes to pursue a building permit valuation approach, we recommend a study of actual valuation charged on construction compared to the sales price of the same unit that later sold. With this information from a cross section of units, a percent of valuation could be determined that roughly approximates the affordability gap and each unit's proportionate share based on the overall program.

6.4.2.6 Actual Gap for Each Project

This procedure entails a calculated gap for each individual unit. This would enable the City to maximize fee revenue from SFD units. Several jurisdictions such as the Town of Danville and Santa Cruz County do this for SFD's. In practice, Santa Cruz County prepares a chart, which it periodically updates, indicating the in-lieu payment based on the projected sales price of the unit.

6.4.2.7 Gap for Each Affordable Unit Owed, or Each Market Rate Unit, or Per Square Foot

These approaches use an average, usually a lowest common denominator type average. As such, the extremes of the market at the higher price end would have a lesser BMR burden compared to other approaches and generate less fee revenue to the City.

The per square foot of the average gap approach has the advantage of generating in-lieu revenues in proportion to the unit size. This approach could represent a good compromise that

is easy to administer. Table 6-8 (on page 6-22) demonstrated that with the current 15% requirement for units selling at $700 per square foot market rate, the gaps translate to a per square foot cost of $66. If the City were to charge $66 per square foot, by way of example, then the charge on a 3,000 square foot unit would be $198,000 ($66 x 3,000), an amount that is 9.4% of the sales price ($198,000 = 9.4% of $2,100,000). If the house sold at $800 per square foot, then the charge would be the same, but only represents 8.25% of the sales price ($198,000 = 8.25% of $2.4 million). This may be compared to the current in-lieu charge of 7.5% sales price.

6.4.3 On-Site Compliance

There are a number of approaches to on-site compliance with Single Family Detached Units. Some are more applicable to large subdivisions, such as land dedication or doing smaller affordable units within the subdivision. It is our understanding that Palo Alto has a history of applying innovative solutions for on-site compliance when there are numerous units, such as multiple units on corner lots and small lot duplexes, etc. It is the charge of this work program to identify any further options for consideration.

One other approach to on-site compliance being utilized elsewhere that has not been pursued in Palo Alto is that of accessory units.

6.4.3.1 Accessory Units

Some jurisdictions permit the BMR requirement for single-family detached homes to be met through development of small “subunits”, referred to as accessory units or “second” units. The new Walnut Creek component provides for a fee option or accessory units, Santa Cruz County has a new program encouraging them, and Danville has a program that has been implemented for over 10 years now.

All programs have some minimum standards about the unit size and composition, such as full or partial kitchen, etc. All usually address parking as well (requiring off street space) and other site coverage and zoning aspects.

More difficult issues relate to tenancy. Anecdotally, it is reported that many units are built and never, or only rarely, occupied by tenants. More likely the units are occupied by immediate family members, such as teenage or “boomerang” children. As might be expected, a household purchasing a $2 million home is usually not pressed for the extra income generated by renting out a small accessory unit for $1,500 a month, or less if the unit has an affordability restriction. In light of total annual housing costs associated with a $2 million home, the extra income from a rental is not a motivation for renting the unit whereas holding the unit available for children, parents, guests, and even extra home office space may be more attractive.

Finally, there are difficulties with monitoring accessory units if they are required to be rented and/or have affordability restrictions that would add to City administrative costs. In summary, the accessory unit solution is not recommended for Palo Alto as a primary means of accomplishing on site compliance for the BMR requirement for single family homes. Since State law permits them, the City cannot prohibit them.

6.4.4 Additional Issues

6.4.4.1 Development Below Maximum Zoned Density

Palo Alto, like many high priced housing locations, finds developers proposing projects that are below the maximum-zoned density measured by units per acre. As summarized in the Market Conditions (6.1), current sales prices are so strong that even large units command prices per square foot that are equal or higher than smaller units. Since the profit on one large unit is greater than two smaller units of the same square footage, the market is responding by building large units and at lesser density. In addition, parking requirements, open space requirements, and neighborhood opposition all contribute to the pressure to build at below the maximum-zoned number of units.

To Palo Alto, this occurrence represents the loss of a potential housing resource. Scarce land that may be planned to accommodate up to 30 units per acre for a range of policy objectives relating to housing, transportation and other policy spheres, is often being developed at well under the maximum-zoned number of units. The question is therefore asked what the City might do to either legislate or encourage higher density. From the perspective of economics and policy analysis, the loss of land resource is used in other contexts and might be applied here as a justification for measures to compensate the City for the loss of potential affordable housing associated with “underbuilding.” For example, the number of BMR units that would be achieved if the land were built to the zoned density, compared to the number of BMR units achieved by the “underbuilding” project, could serve as a basis for a higher level of BMR requirement in these situations.

In fact a few jurisdictions (Yountville is an example) base the BMR requirement on the underlying zoning, not the built project. To our knowledge such a requirement has not been tested in court and it is our understanding that the City Attorney is not aware of any legal prohibition on such a policy.

TABLE 6-18
MARKET AND BMR PRICES AND AFFORDABILITY GAPS
SINGLE FAMILY DETACHED UNITS OF VARYING FLOOR AREA
BMR PROGRAM UPDATE
CITY OF PALO ALTO

	BMR Price		Market Price		Affordability Gap	
	Per Unit	PSF	Per Unit	PSF	Per Unit	PSF
At 90% AMI						
Three Bedroom (1,600 sf)	$293,400	$183	$1,120,000	$700	$826,600	$517
Three Bedroom (3,000 sf)	$293,400	$98	$2,100,000	$700	$1,806,600	$602
Four Bedroom (1,800 sf)	$320,900	$178	$1,260,000	$700	$939,100	$522
Four Bedroom (4,000 sf)	$320,900	$80	$2,800,000	$700	$2,479,100	$620
At 110% AMI						
Three Bedroom (1,600 sf)	$369,900	$231	$1,120,000	$700	$750,100	$469
Three Bedroom (3,000 sf)	$369,900	$123	$2,100,000	$700	$1,730,100	$577
Four Bedroom (1,800 sf)	$403,600	$224	$1,260,000	$700	$856,400	$476
Four Bedroom (4,000 sf)	$403,600	$101	$2,800,000	$700	$2,396,400	$599

6.5 Policy Options for Modifying the BMR Program as Applied to Ownership Projects

This section provides some policy options and recommendations for modifying the current H-36 Program as applied to ownership, or for sale, residential projects. The previous sections have reviewed market conditions, affordability gaps, as applied to attached (condominium, townhome, etc.) and single family detached projects in Palo Alto. The in-lieu provision as contained in H-36 has also been analyzed and other options for structuring in-lieu provisions have also been examined.

In this section, we describe a recommended approach for a customized analysis of each project. In addition, we summarize and recommend some adjustments to the in-lieu fee and land dedication options for meeting the H-36 BMR requirements.

6.5.1 Require a Customized Analysis for On-Site Compliance

After extensive consideration of the Palo Alto conditions over the course of this work program and in light of the small volume of projects of five or more units processed per year, we strongly recommend that a customized BMR analysis be conducted for almost all projects of 5 or more units. The exceptions would be those projects for which the BMR compliance is straightforward and not subject to interpretation or negotiation regarding unit sizes or affordability levels. To accompany this recommendation, we provide a standardized methodology for performing the analysis and a process outline for the conduct of the analysis.

6.5.1.1 Standardized Analysis Methodology

We recommend a standardized methodology for addressing the BMR requirement and presenting of options for fulfilling the requirement. A detailed description of the analysis steps and materials to be used is provided as an Appendix E. Briefly, the analysis steps are:

1. A market survey of new unit sales prices to estimate market prices (or market minimums)

2. Description of the project development program: number of units, by unit size (number of bedrooms), square feet of units

3. BMR requirements as applied to the development program; using the BMR affordable prices by unit size per the City's annual calculations for the BMR Program (summarized in Section 3.2 and now implemented by the City)

4. Analysis of BMR affordability gaps and total BMR obligation. This will be expressed both as number of units and/or total dollar amount of sales revenue forgone. This unit count and dollar amount will establish a baseline from which to calculate the

economics of potential alternatives of building BMR units on site that mirror the market rates.

Multiple options for meeting the BMR obligation exist with most multifamily projects. The current program has split affordability targets (two affordability levels required) and requirement to make BMR units the same as market rate units by unit size. As a result, BMR requirements applied to projects rarely result in even numbers of units. This condition leaves room for interpretation and negotiation among BMR equivalents and partial in–lieu payment obligations, or options for compliance.

Since the BMR requirement will be established and negotiated in advance of project completion and sale of units, there will be a time lapse of at least a year from the analysis to the sale of the market rate units. In periods of value escalation this could translate to the City not capturing 100% of the affordability gap between market prices (at the time of unit sales) and BMR prices. However, the current in-lieu provisions (as percents of sales prices) do not capture 100% either. On balance, this provision should capture most of the gap while realizing savings in administrative costs.

We believe that this standardized methodology will result in enhanced achievement of BMR units on the part of the City and a clearer understanding by all parties of the total BMR obligation for each project and options for fulfillment.

6.5.1.2 Procedural Aspects

Following is a brief summary of the process for residential projects that must meet their BMR obligations with on-site compliance or some combination of on-site compliance and BMR in-lieu payment.

1. Initial inquiry to the City. City provides material and explains BMR program. City explains process and customized analysis requirement. City provides developer with analysis methodology and sample so there is an understanding of the forthcoming analysis and process.

2. Developer presents development program of the market rate units to the City. Development program is number of units, unit sizes by number of bedrooms and square foot area, etc.

3. City prepares, or retains an outside service to prepare the BMR analysis. If an outside service is used, the service is contracted to the City but paid for by the developer, similar to the typical EIR preparation procedure. An outside service uses the standardized methodology and should be able to prepare the analysis and report for $15,000 or less (relative to the total BMR obligation this is a very minor amount).

Alternatively, the City could retain an outside service to do a market survey on a regular basis (every one to two years) to determine baseline market prices per square foot. The City could then prepare the analyses, using the standardized methodology.

4. City presents the findings of the analysis to the Developer. City may express a preference in how the City prefers the obligation to be fulfilled. For example, it may seek larger (more bedroom) units in exchange for smaller ones plus payment.

5. City and Developer negotiate the options until a satisfactory resolution is achieved. This process will likely entail the developer testing different options in the project design in consideration of other project variables.

We believe that the above procedure will enable the City to negotiate the achievement of more units of desirable configuration than the current process seems to produce. If the City chooses, this procedure could be used to facilitate the substitution of smaller square footage units instead of very large BMR square footage units per the current program without sacrificing any of the objectives of the existing program.

Finally, we believe that the standardized methodology combined with the outlined procedure will be less burdensome for the staff to administer. All parties – staff, developer, and City Council will have a clearer picture of the BMR total requirement adapted to each project and the options for fulfillment.

6.5.2 In Lieu Provision

In Section 6.2 and 6.4 we tested the current in-lieu provision which is structured as a percent of sales price of the market rate unit. The conclusion of the analysis was that the current percentages per H-36 of the Housing Element (7.5% sales price for the base 15% BMR, 10% sales price for 20% BMR condition, and 12.5% sales price for the 25% BMR condition) are similar to the burden on market rate projects to providing on-site units, assuming the lower end of market prices in Palo Alto. At the higher end of the range of market prices in Palo Alto, the forgone revenue associated with onsite provision of BMR units is greater than that required by the current percentage of sales price obligations.

In Section 6.2, several options are described for alternative ways in-lieu fees are structured based on a survey of BMR or inclusionary housing programs in California. One option is described as the “Actual Gap” or gap that would be owed based on the specific development program of each project. The customized analysis for on-site compliance described above could also be used to establish a customized in-lieu obligation for each project. Should the City elect to use the customized analysis, then we recommend that the in-lieu provision be similarly approached.

Should the city not wish to proceed with customized analyses, a preferred approach to in-lieu fees is the per square foot charge on market rate units, also described in 6.2. Should the City elect to expand coverage of the BMR program to very small projects, then we recommend the per square foot fee approach. In the subsequent section on Policy Options for Increasing the Supply of Rental Units, expanded coverage of the BMR program down to single units and even additions to residential units is recommended as a major means of increasing revenues with which to assist affordable rental projects. In the event this option is pursued, then a per square foot charge would be the most equitable and easy to administer approach to an in-lieu charge for very small projects and additions to existing units.

6.5.3 Land Dedication Option

This section covers several topics related to land dedication as an alternative to on-site provision of BMR units. The City has raised several questions with respect to implementation of a land dedication or donation concept cited in H-36 of the Housing Element. This section addresses these questions.

More discussion of land dedication is provided in 6.6 when land dedication is recommended as a requirement for projects over a certain size in order to produce sites for the production of affordable rental housing. In this discussion, the land dedication is an option to on-site compliance and thus alters the concept and raises some different questions.

6.5.3.1 Land Dedication Option Equivalency Issues

The first question raised by the City, concerns how to measure land dedication that is equivalent to an on-site BMR requirement. While there are a number of ways that this is handled by various jurisdictions, the most prevalent one, as applied to off-site parcels, is equivalency in value.

The value of the on-site BMR requirement can be determined by the customized analysis described previously in this section. As for the parcel to be donated, most ordinances or code sections call for an appraisal of the proposed parcel to determine its value. The City of Irvine, for example, has wording to describe the transfer of a parcel for which “the value is to be calculated based on a City approved appraisal of the land and the gap study.”

Always, the jurisdiction must approve the parcel as acceptable, properly zoned and suitable for affordable units. The minimum size of the parcel is usually expressed as capable of being developed with a certain number of units consistent with the current zoning and other regulations. In Palo Alto, based on discussions with staff, a site capable of developing 20 units is a suggested minimum in order to achieve a viable project size for obtaining favorable state and federal financing.

6.5.3.2 Land Dedication Option Procedural Issues

The major procedural issue is that of entitlement risk and which party is to take responsibility for the process. Clearly the City or non-profit cannot be left with a major entitlement risk on a dedicated land parcel. The City of Sacramento, for example, requires all project level approvals prior to issuing a Certificate of Occupancy for the market rate project.

In Section 6.6, we provide more discussion of a land dedication requirement and recommended procedure. The same procedures could be applied to a donated parcel that is the choice of the market rate project developer for meeting the project BMR requirement.

6.6 Evaluation of Policy Options for Increasing the Supply of BMR Rentals

This section provides a summary and evaluation of policy options for modifying the existing BMR program as contained in Housing Element Chapter H-36. The options evaluated are selected based on our contractual agreement with the City of Palo Alto and expanded based on discussions with City staff over the course of the work program.

The content of this section is best summarized by the outline below:

6.6.1 History and Original Goals of the BMR Program
6.6.2 Current Conditions and Needs for BMR Program Modifications
6.6.3 Advantages of BMR Rentals v BMR Ownership Units
6.6.4 Increase Site Resources: Require Land Dedication
6.6.5 Increase Financial Resources: Increase In Lieu Revenues
6.6.6 Options for Applying a Rental Program to New Ownership Projects
6.6.7 Options for Converting BMR Owned Units to Rental Units

The key recommendations from this section and the previous sections of this report are provided in a separate Summary of Recommendations.

6.6.1 History and Original Goals for the BMR Program

The City of Palo Alto's BMR program traces its roots back to at least the early 1970's. As part of this updated program, City of Palo Alto staff undertook research on the mission and intent of the early program. The results of the research is contained in a City Memorandum dated September 23, 2004, which briefly summarizes the major milestones and attaches excepts from early documents. (Document available from the City upon request)

The goals of the original program were quite general: to increase the ability of families to meet their housing needs regardless of age, income and disability through a broad range of housing choices. The pioneering aspect was the use of zoning powers to require the private sector to build 20% of the units affordable to low and moderate income households, "to avoid further imbalance in the housing stock." Other principles were incorporated into the program that have become standard today with cities that have adopted BMR (or "inclusionary") programs – inclusion of affordable units in each project, dispersion of units throughout the city, and application to a range of multi-family projects in terms of unit size and configuration.

In the 30+ years that the program has been in place, it has produced an inventory of BMR units at a range of affordable income levels and unit types. At this time there are 101 rental units in the program and another 139 ownership units. In recent decades the program has primarily produced ownership units which are affordable to households at median and low income. As a result, households of less than low income (or 80% AMI) are not being served by the program, except through the turnover of the existing inventory. The BMR ownership inventory has

experienced very low turnover since its inception, resulting in few new low income households being served by the program. In summary, the current program has had limited success in serving the broad range of housing needs envisioned at the outset.

Clearly the program has not been successful in "avoiding further imbalance in the housing stock" although it is impossible to conceive of any reasonable program that could have achieved that result in light of the strength of the local economy, the market pressures on the housing stock, and the high desirability of Palo Alto as a place to live.

6.6.2 Current Conditions and Needs for the BMR Program Modifications

The current conditions with respect to the units produced by Palo Alto's BMR program and opportunities for the City to expand the households it can serve may be summarized:

- There has been an almost total absence of market rental housing production in Palo Alto in recent decades, except for the few projects sponsored by Stanford University and/or built by non-profit developers. While forecasters at the national and state level foresee the return of the rental market in several years, in markets like Palo Alto where the gap between the profitability of ownership units and the infeasibility of rental units is so huge, the likelihood of the rental market returning anytime in the near term future is remote.

- Some of Palo Alto's goals for affordable housing can be best met by more affordable rental housing. The affordability levels of the units produced by the BMR ownership program are not deep enough to make units affordable to households where members work in sectors that meet basic community needs such as teaching and public safety. Households where members work in service or retail jobs find housing opportunities, including most BMR units, hopelessly out of reach.

- Rental projects developed using federal and state programs can deliver units affordable to very-low income levels, households not served by the BMR ownership program.

- Rental units built through these programs have also proven easier and less expensive for the City to monitor and administer. The units built through uses of programs that have regulatory controls set by the State or federal government has proven to be a lesser administrative burden for the City. By contrast, the administrative burden of administering and monitoring Palo Alto's BMR ownership unit inventory is substantial and will only grow over time as the inventory expands, even with improved measures that may result from this program update.

- The major constraint to producing more rental projects and units accessing state and federal programs is land availability. Multi-family ownership projects are so profitable neither the non-profit developers nor the City can effectively compete for sites. The City

is further hampered by process requirements that do not enable it to act rapidly enough to secure options on the few opportunity sites that are presented.

- Non profit developers are able to use local funds to access state and federal programs, achieving a leveraging of local funds by a factor of three to five times. As a result, local funds can be used far more efficiently to produce affordable units in qualified rental projects than in projects without outside funds. Put another way, not accessing federal and state funds to produce rental units represents a significant lost opportunity to the City of Palo Alto.

- There are sufficient highly qualified and experienced non-profit developers active in the local region that are eager to develop affordable rental projects if sites are available. Projects developed by non-profits with the benefit of state and federal programs still require additional cash subsidy. As a result adequate funds represent another constraint given the amount of revenue currently generated by the BMR in-lieu payment program and other Palo Alto affordable housing resources.

In summary, the City would like to increase its production of affordable rental units for both policy and administrative efficiency reasons. The following subsections explore options for producing more rental units through both new development and converting existing BMR ownership units to rentals. Since the major obstacle to development of rental projects is site availability, the City would like to pursue options for improving access to developable sites. Additionally, the City would like to explore measures to enhance in-lieu payment revenues to assist rental projects, as well as for more resources in general.

For the existing program, the City has requested our consideration of transitioning some of the BMR ownership unit inventory to rental units over time, through either conversion from ownership units to rental units or through selling BMR ownership units and using the sales proceeds for the development of rental units.

6.6.3 Increase Site Resources: Require Land Dedication

To meet the need of producing more sites for the development of rental projects affordable to lower income tiers and to access federal and state programs, the City program could be modified to include a mandatory land dedication component. This approach is used by Sacramento area cities as part of their inclusionary program and could be adapted to the infill conditions of Palo Alto. Specifically, projects over a certain threshold site size can be required to dedicate a portion of the site to the City or directly to a non-profit developer for the development of rental units. Developers may also be permitted to dedicate an alternative site accommodating the same number (or more) of units.

6.6.3.1 Required Land Dedication Amount

Projects of over 5 acres can be required to dedicate a site suitable for the construction of rental units by another entity, such as a non-profit developer.

- The minimal dedication site should be capable of developing 20 units of rental housing per existing zoning. (Units should be an assumed mix of one and two bedrooms). This minimum is recommended since projects of 20 units represent a practical minimum size for securing federal tax credits and other favorable financing tools. The parcel must be suitable and properly zoned for the development of at least 20 multi-family units.

KMA undertook an analysis of three different prototypical projects to determine what portion of a site would need to be dedicated to maintain the same profit as the project developed with BMR units on site within the project. Since land dedication is perceived as a possibility for projects of larger acreage, the prototypes were tested for projects of five or more acres, subject to the 20% BMR requirement. The two alternatives tested for the same profit level are 1) a five acre project with BMR units on-site and 2) all market rate units with a portion of the site dedicated to the City.

The three prototypes were assumed to have a sales price for the units per square foot at $625, or a level experienced by several projects at the time the market surveys were conducted in late 2004 and 2005. Otherwise, the three prototypes differ significantly in density, construction cost (inclusive of indirect costs, but excluding cost of sales, profit and land) and land cost per unit. Conclusions on amount of land dedication to maintain profitability also varies substantially. Briefly, the three prototypes and conclusions are as follows:

1. Townhome units built at a density of 17.2 units per acre. Cost of construction per unit, $311,432, land cost per unit, $342,000 or approximately 45% of unit sales price. Percent of site that could be dedicated and maintain profit level – 18%.

2. Condominium units built at a density of about 35 units per acre, above grade podium parking. Cost of construction per unit $425,000, land cost per unit $187,000, or 25% of total sales price. Percent of site that could be dedicated to maintain profit level – 29%.

3. Condominium units built at a density of 63 units per acre with subterranean parking. Cost of construction per unit $486,500, land cost per unit $112,000, or 15% of sales price. Percent of site that could be dedicated and maintain profit level – 32%.

The conclusion that may be drawn from the three prototypes is that the percent of the site that could be dedicated while maintaining profit level varies substantially, depending on the share of sales prices attributable to land cost (which is inversely proportional to density and construction cost).

The City of Palo Alto therefore has several policy options with respect to a land dedication component:

a. If the BMR requirement is 20%, the land dedication is 20%. This percentage is an average. It is preferable to doing BMR units on site for higher density projects and it is more onerous than doing BMR units on site for lower density projects. Averages are usually justified in public policy applications, recognizing the occasional inequities.

b. If the BMR requirement is 20%, apply a higher percentage dedication to higher density projects than lower density projects. It is suggested that more prototypes be tested before recommendations of percentage of land dedication for each.

c. The City could require a customized analysis to determine the land dedication on a case by case basis for all projects over a certain threshold size. The threshold size could be 5 acres, or possibly as low as three acres, as long as the minimal parcel size requirement can be met (for developing 20 rental units). For example, a 3.5 acre site with a 15% BMR requirement might yield a land dedication of .52 acres, or large enough for the minimum project, depending on the zoning.

In the interest of simplicity, KMA recommends the first option, or a 20% land dedication for all projects of 5 acres or more. In higher density locations, the advantages to the developer should be sufficient to incentivize the dedication option.

6.6.3.2 Land Dedication Procedural Recommendations

Land dedication of a parcel, to be conveyed to the City or directly to a non-profit developer with the City's consent, is being recommended as the appropriate procedure.

We recommend against requiring the master developer (or developer of the market rate units) being responsible for developing the affordable rental units because of the special expertise required in developing affordable projects and accessing state and federal programs. We also recommend against linking the timing of development of the rental units to the development of the market rate units. The two types of projects have differing requirements, differing financing and differing time lines. (State and federal programs need approval at the state level which has timing implications.) Also, with separate developers, one entity cannot control the other. Finally, we believe there is no necessity to link the two once the City has secured a land dedication because the risks that the parcel will not be suitably developed are low, given appropriate procedure.

The following provisions will be important to include in the land dedication component.

- At the Use Permit entitlement stage, the land dedication parcel with the proposed rental project development program (expressed as a narrow range or maximum number of

units) must be included in the overall entitlement. The development of the parcel to be dedicated needs to be identified to the same level of detail as the rest of the project.

- After the Use Permit entitlement, the master project and the dedicated land parcel will proceed as independent projects.
- The rental project on the dedicated land parcel will be subject to Architectural Review, which is similar to all projects.
- The developer of the master project must be responsible for any infrastructure improvements or off-site improvements required to develop the rental units on the dedicated land parcel. The site must be free of toxics and other impediments.

With the above steps to insure that the development is entitled and protected from infrastructure and off-site cost burdens, there should be minimal risk to the City that a rental project will be developed on the dedicated land parcel.

6.6.4 Increase Financial Resources: Increase In-Lieu Revenues by Covering All Residential Construction

A revision of the program to affect all units would generate a substantial new revenue source not currently being captured by the BMR Program. Unlike most of the policy recommendations regarding application of the BMR program to new residential units that entail trade-offs between BMR unit production and in-lieu fee payments, this measure would entail not any trade off.

If the City were to reduce the minimum threshold below the current level of five units down to one unit and include all additions of new space to existing residential structures, the following could be considered:

- There are currently around 90 units per year built in Palo Alto that are not covered by the program. Almost all are single-family homes built by owner occupants or by speculative builders doing one or two units at a time. As a result, a significant share of the residential activity in Palo Alto is not participating in the BMR program (90 units is the average annual number of building permits issued for structures under 5 units, for the past 7 years).
- There is no conceptual basis for exempting single family detached homes from contributing to the City's affordable housing program. Moreover, there is probably a great capability to making a contribution given the strong economics of single family detached units.
- Because less than one on-site BMR unit is owed in very small projects, generally, cities scale back their base in-lieu requirements in steps down to one unit. For example, if the

base in-lieu requirement is 7.5% of the sales price for 5 units, it might be 7.0% for 4 units, 6.5% for 3 units, 6.0% for 2 units and 5.0% for a single unit.

- However, many very small projects are custom built for owner occupants and do not entail a sales price of the finished unit. As a result, an alternative to a percent of sales price would need to be added to the program for an in-lieu requirement for very small projects. An example would be a per square foot charge supported by a BMR affordability gap analysis.

- To illustrate the revenue potential from the 90 units per year, now exempt from the program, if the City were to charge $25 to $50 per square foot, and the average size of the new units is 2,000 square feet, then new revenue would be $5 to $9 Million per year; if the average size of new units is greater than 2,000 square feet, then new revenue would be proportionately greater. ($50 per square foot is equivalent to the 7.5% sales price requirement when the average sales price is $667 per square foot.)

- Additions of residential space to existing units could also be charged as part of the BMR program. New square footage may be charged in the same manner as single family detached units. Remodeling of existing space that does not add new residential area may not, however, be included in the program. Including residential additions to the program would potentially produce more affordable housing funds in Palo Alto.

- A number of other jurisdictions charge all residential units. Examples include Napa City and County, San Juan Capistrano, Santa Cruz County, Monterey County, Santa Monica, and Cupertino. None of these, however, charge as much as the current Palo Alto BMR program.

In summary, by expanding the program to include all residential construction, substantial additional BMR in-lieu payment revenues could be realized to enhance the program to assist in the development of more rental units and to provide more resources for other aspects of the program.

6.6.5 Options for Applying a Rental Program to New Ownership Projects

If the Palo Alto BMR program is to transition to more of a rental BMR program, then the program needs an alternative to requiring new condominium and townhouse projects to include BMR ownership units within the project. Instead, there are two major options – collect in-lieu fee revenues (and use funds to build rental units) or require rental units within ownership projects.

Clearly the more simple approach for all parties is to collect in-lieu fee revenues and then have the City use the funds to assist the development of more BMR rental projects. The major difficulty is for the City to continually acquire sites for development to keep BMR unit production in more or less consistent relationship to market rate unit production. Advantages are those

indicated in the introduction of the greater leverage of funds using federal and state financing mechanisms, resulting in substantially more funds per City dollar.

The City of Santa Monica is a case study of a city that has long had an aggressive and active affordable housing program. A number of years ago, the City transitioned to a completely fee based program applied to new condominium development, and uses the fees to facilitate the development of affordable rental units. The City has no inventory of BMR ownership units.

An alternative to fee collection is to require rental units within condominium or townhome projects. This alternative raises a number of issues:

a. What is the ownership entity of the rental units? Condominium homeowners associations are not appropriate entities due to incompatible purpose for existence, and lack of appropriate expertise. In our view, cities also do not make suitable landlords. The best option would be a non-profit entity that owns other BMR rental units.

   Ownership by definition includes responsibility for the physical condition of the unit. The unit owner would presumably also pay the HOA dues; however since the owner is not the occupant, there could be a need for some special representation in the HOA.

   Finally, there is the issue of how the entity that is to own the unit, presumably a non-profit, is to raise the funds to purchase the unit from the condominium development. Rental units affordable to very-low and low- income households may not have high value relative to the housing market, but they do have some value. A low income unit, affordable to a household at 70% AMI, for example, has a value in the range of $180,000 per unit. Non-profits are not generally structured to raise funds to purchase units when there is no opportunity for rehabilitation and generate fee revenues to sustain the existence of the non-profit organization. Some benefit or revenue to the non-profit would have to be devised to make the arrangement workable.

b. What entity should manage the rental units? Even more than ownership per se, management would be best undertaken by a qualified and experienced non-profit housing provider. Again, HOA's lack the expertise and compatible motivation. Cities are a poor option. While units dispersed in the condominium projects throughout the city would be less efficient to manage than the same number of units together in a single building, management could be performed by an appropriate non-profit.

   Management implies tenant selection, tenant income compliance, rent collection, day to day maintenance and repair and a host of other activities. All rental property management requires expertise to do well; affordable units add an additional layer of responsibilities and requirements.

c. Compatibility of owners and renters in the same building. Since many condominium units are rented, this potential is not inherently a problem. However, with the added degree of difference between the income of the rental tenants and the owners there could be discomfort and friction. Most friction is about maintenance and management; well maintained and well managed units would be likely to avert most issues that cause friction, but the potential for friction must be recognized.

d. Physical differences between owner and rental units. Rental units are typically built to smaller sizes (in square foot area) and with more modest interiors than ownership units in Palo Alto. Palo Alto would need to re-evaluate its policy of requiring affordable units to be identical to market rate units.

e. Examples in other jurisdictions. A number of inclusionary housing ordinances allow the use of rental units within condominium and townhome projects. However, we have not identified any city that has extensive experience with rental units having been developed within such ownership projects.

Most of the above issues are generic or inherent to locating BMR rental units within condominium projects. As such, the discussion holds irrespective of the BMR affordability level.

6.6.6 Options for Converting BMR Owned Units to Rental Units

If the City is to transition out of a BMR program with owned units to all rental units, then one option is converting owned BMR units that become available for sale to rental units.
This would have to be an incremental process, one unit at a time, as units become available for sale.

Most of the same issues identified regarding rental units within condominium and townhome projects would apply to the conversion of older units – who will own them, who will manage them, how are all the incompatibilities to be addressed. In some cases there could be the additional need to buy down the value of the condominium unit to rental unit value. However, many units in the Palo Alto BMR owned unit inventory have sufficiently low restricted sales prices that no buy down would be necessary.

If the City can identify a willing non-profit entity to own and manage scattered units, then the non-profit could be delegated the responsibility of the upgrades and capital improvements that many older units sorely need. The City could potentially grant or loan funds for the improvements, depending on the individual circumstances (cost of unit purchase, cost of improvements, affordability level of tenants and rental income vs. operating expenses, and other factors.)

If the City is to embark on a transition program, we recommend that the City rethink the affordability level requirements. The affordability level of the rental units might be set to lessen the disparities between the rental and owned units. Rental units in high priced condominiums might be set at median moderate income, for example. Rental units in more modest older condominiums might be set at low income.

6.6.6.1 Sale of BMR Units at Market Prices and Use Proceeds to Construct Rentals

If the City determines that it would like to transition out of its BMR ownership inventory and into a rental stock, then another option would be for the City to acquire BMR units as they become available for resale, lift the deed restrictions and sell the units at fair market value. The City could then use the sale proceeds to purchase land or enter into an agreement with a non-profit rental apartment developer to construct affordable rental units. Based on discussions with non-profit developers, there is often an opportunity to build additional rental units within an existing rental complex, which can be an effective way of increasing the stock without having to assemble a new site.

In order to implement this option, the City would likely have to undertake improvements to the BMR units to make them marketable but the cost of the improvements would be recovered through the sale of the unit on the open market. Given the spread between the deed restricted price and market rate prices, the sale of each BMR unit could yield in excess of $300,000, which could be used to help leverage other funds and possibly build 2 to 3 new rental units in place of the ownership unit.

7. SUMMARY OF RECOMMENDATIONS

The following is a summary of the consultant team's recommendations.

Section 3: BMR Unit Value and Maintenance

(3.1) Key findings/ Recommended revisions to the City's formula for establishing initial prices for BMR units

- The City should eliminate the "cost-based minimum pricing" provision from its BMR program.

- The City should annually establish a list of prices for BMR units that would apply to all new BMR units. The prices would not be subject to negotiation. It is our understanding that in May 2005, the City adopted this recommendation. The City sets prices based on HCD's published income limits as of May 1st.

- The City's pricing formula for new units should be simplified as follows:

  - Establish the price for all lower moderate income units at 90% of AMI;

  - Establish the price for all upper moderate income units at 110% of AMI;

  - Base unit prices on a household size equal to the number of bedrooms plus 1;

  - When establishing annual prices, use an interest rate that is somewhat higher than then current market rate of interest. This will provide some cushion in an increasing interest rate cycle.

  - Other than as done in the annual price calculations, do not allow for project-specific adjustments to interest rates or other factors; and

  - Apply prices that are in effect as of the date that: 1) the units are being marketed; or 2) a set time period after building permits are issued.

(3.2) Recommended appreciation index for establishing BMR resale prices

- The resale price should be capped at the lesser of: 1) the price of comparable new BMR units being sold at the same level of affordability as the price originally paid by the seller; or 2) 80% of the unrestricted market rate value of the home.

- A floor should be established for the resale price that would be equal to the greater of 1) the price that the seller paid for the home; or 2) the price that would be affordable to households with incomes that equal 75% of the AMI.

- The resale price should be driven by a “base” appreciation index equal to 80% of the increase in the AMI.

- The resale price formula should include both a provision for increasing the resale price beyond the 80% AMI escalation base if the homeowner undertakes capital improvements to the property and/or pays a special assessment and a provision for reducing the resale price to cover the cost of curing deferred maintenance.

(3.3) Maintenance and Treatment of Capital Improvements on Resale

- The City should adopt an appreciation formula that allows adequate appreciation to encourage owners to maintain and improve their units.

- The City adopt refinancing policies in its Policies and Procedures Manual that would assist BMR owners to use refinance proceeds to undertake capital improvements. The policies would apply to refinancing of the first mortgage loan or obtaining new subordinate financing or equity line of credits and restrict the maximum combined loan-to-value to between 95-100% of the BMR unit’s current value and prohibit loans in which the principal may increase over time, including negative amortization loans, option adjustable rate mortgages, and reverse equity mortgages.

- The City should consider revisions to the asset limits as discussed in Section 5.2.3.2 of this report.

- The City should have inspections of the properties performed by a City building inspector, City staff or outside contractor with construction experience and knowledge of building codes.

- The City should continue to advise homeowners to obtain their own independent property inspection prior to resale and that, if the City inspections are not performed by an inspector with code compliance expertise, that the City advise the buyers that the inspection does not include a determination of compliance with applicable codes.

- The City should require that any deferred maintenance be completed prior to the close of escrow and that repair grants and rehabilitation loans be available to the owners to fund the work.

- The City should adopt a minor home repair grant program and a deferred-payment, zero-interest rate rehabilitation loan program for BMR owners. In addition to helping BMR owners, this would also help the City become more competitive to secure other funding sources for BMR improvements.

- The City or its program operator, PAHC, should continue and expand its efforts to remind and inform BMR owners of the provisions under the current and any newly-adopted deed restrictions.

- The City should revise its adopted housing plans (the Housing Element and the Consolidated Plan) addressing affordable housing needs and priorities to include the repair and rehabilitation of BMR units as a housing need and priority for the City.

(3.4) Major Special Assessments for Capital Repairs and Increasing Monthly Homeowners' Association Dues

- The City's Assessment Loan Program needs to have adequate funds to meet the needs of all eligible BMR owners.

- The City should explore retaining an outside program operator to operate the Assessment Loan Program to reduce City staff time.

- The provisions of the Program should be modified as follows:

  - The minimum special assessment amount should be lowered to $5,000;

  - The ineligibility of owners who have secured unauthorized mortgage financings should be suspended until the program requirements are clarified through the recording of updated deed restrictions;

  - Eliminate the priority for households with housing costs in excess of 30% of income, particularly for those in the lowest income categories.

  - Eliminate the requirement that applicants need to have applied for and been denied a refinancing.

  - Simplify the priority categories.

  - Consider forgiving loan after 30 years.

  - Eliminate requirement that existing loans subordinate to the new City loan for assessments.

- Apprise all BMR owners of the Assessment Loan Program.
- Simplify the income determination process.
- Explore applying for funding from the CalHFA HELP Program and the State Workforce Housing Reward Program.
- Enable BMR owners to add the full value of major special assessments to the resale price.
- Consider requiring that a portion of developers' on-site or in-lieu fee requirements be deposited into the Assessment Loan Program as a future funding source.

Section 4: Deed Restrictions

(4.1) Revisions to the City's deed restrictions to Enforce Program Requirements

General Provisions

- Record the deed restrictions separately on title, rather than as an exhibit to the grant deed.
- Secure the deed restrictions with a performance deed of trust in favor of the City.
- Revise the title of the deed restrictions to include a reference to use, financing, transfer, and resale provisions.
- Include a plain language summary disclosure as an attachment to the deed restrictions, both of which would be signed by the buyers.
- Include clearly identified separate sections.

Owner-Occupancy

- Include a separate section defining owner-occupancy as occupying the BMR unit as a principal residence for 10-12 months of the year for the duration of the ownership of the BMR unit and specifically identifying leaving the unit vacant as a violation of this provision.
- Include a process for obtaining a temporary waiver of owner-occupancy for specific reasons.

- Include requirement that owner cooperate with the City's monitoring of the owner-occupancy requirement, maintain a valid homeowner's exemption for owner's property taxes, and provide any requested documentation to verify owner-occupancy.

Rental of BMR Units

- Include separate, clearly labeled rental section.
- Include conditions under which BMR units may be rented and process for obtaining approval for such rentals.
- Require that owner pay to the City an assumed market rate rent for the period that units that are not owner-occupied in violation of deed restrictions and that owner forfeit any appreciation of the unit during that period.

Transfer of Title

- Include separate, clearly labeled transfer section.
- Expand list of allowable transfers to include transfers to domestic partners and adopted children and into inter vivos trusts in which the owner is the beneficiary.
- Include requirement that owners notify the City of allowable transfers, that new owners occupy the property and execute and record new deed restrictions, and that allowable transfers to owners who are not currently occupying the property be certified as income eligible BMR owners.

Refinancing/Over-financing

- Include separate, clearly labeled refinancing section.
- Require a new Request for Notice of Default or Sale to be recorded related to any new loans.
- Define loans covered by this section to include any new mortgage loans, home equity loans, or line of credits.
- Establish maximum loan-to-value limits of between 90-100%.
- Include restrictions on types of loans for which the principal may increase over time.

Enforcement Measures

- Identify violations of owner-occupancy, allowable rentals, allowable transfers, and financing provisions of the deed restrictions as breaches or events of default.

- Establish a process by which owner is notified of breaches or defaults with specified process and deadlines to cure.
- Include enforcement measures identified in Section 4.2.6 that the City's legal counsel has determined are legally enforceable.

(4.2) General Revisions to Structure of Deed Restrictions

Revise and standardize document to be comprised of two separate documents: 1) Resale, Transfer, Use, and Refinance Restriction Agreement and Option to Purchase; and 2) Deed of Trust and Security Agreement.

(4.3) Summary of Recommended Changes to Existing Deed Restrictions

If it is legally feasible, we would recommend that the deed restrictions on existing BMR units be revised and standardized to conform with the deed restrictions to be imposed on newly constructed units.

The new deed restrictions should offer benefits to both the homeowner and the City. Specifically, the amount of appreciation should be increased, the City's interests should be secured by a deed of trust, occupancy, transfer, and refinancing provisions should be explicit, and homeowners should be able to recover the cost of special assessments in the resale price.

Section 5: BMR Purchase Program Implementation

(5.1) Improvements to the website

- Indicate that there are three eligibility requirements: income, assets, and citizenship/ legal residency status – not just income eligibility.
- Briefly describe how income is calculated.
- Include income eligibility for new units in Income Eligibility section.
- Remove citizenship/legal residency requirement from preferences section, since it is a minimum requirement, not a preference.
- Include requirement for owners of applicable units, to contact City, or the City's designee, to obtain approval for any new mortgage financing or lines of credit.
- Clarify whether the financing limit of 100% of the BMR value pertains to both refinancing and purchase.

- Clarify that buyer selection is not based solely on applicant ranking on the waiting list but also on live or work status.

- Clarify for existing BMR owners that resale price is set at different appreciation rates depending on the deed restrictions for the particular unit.

- Clarify that the current gift limit for those under age 62 is 10% of the BMR price (currently stated indirectly as 20% of the asset limit that is limited to 50% of the BMR price).

(5.2) Improvements to the Policies & Procedures Manual

- Clarify the process for adopting new program policy and procedures and who has the authority to do so.

- Incorporate program policies into the program Manual, including a summary of the adopted policy, the adoption date, and the adopting entity (i.e. BMR Committee, PAHC Board, City staff, City Council) with reference to any background materials that would indicate the intent and relevant factors informing that decision and update the Manual as new policies are adopted.

- Incorporate current program materials, such as the Information Packet, the Waiting List Application, and the Waiting List Application Update, and update the Manual as materials are revised or new materials are developed.

- Incorporate new program parameters, such as income limits for resale units, household size requirements, asset limits, and gift limits, and update the Manual as needed.

- Include sections in the Manual covering other areas for which policies have already been adopted (such as the rental of BMR ownership units, transfers of BMR units to heirs, transfers to trusts, maximum allowable financing, etc.) and those that the City may adopt as a result of this study (such as restrictions on types of mortgage financing).

- Include new sections in the Manual covering refinancing and over-financing, continuing education for BMR owners, monitoring, default, foreclosures, and follow-up to the close of escrow.

- Incorporate into, or reference in the Manual the different versions of the City's deed restrictions with the City's list of which versions were recorded on the title of each BMR property, both of which are already compiled by the City, along with any necessary variations in program implementation as a result of differing requirements in the various versions of the deed restrictions.

- Consider replacing older versions of the deed restrictions with the revised deed restrictions with the performance deed of trust developed as a result of this study, when units resell, or by requiring that new deed restrictions be recorded upon refinancing the unit, or with the incentive of allowing a higher appreciation rate.

- Consider reformatting the Manual to more easily incorporate updated information.

- Make BMR information provided by mail (information sheet) and website materials consistent.

- Consider minor revisions to Information Sheet, Waiting List Application, and Information Packets to clarify program information.

- Provide a brief description of how income is calculated in program materials.

- Ensure that information on the City's BMR Purchase Program for interested BMR buyers is accessible through a search on the City's website under such general topics as BMR Housing Purchase Program, below market rate units, and/or affordable housing, either through a link to Palo Alto Housing Corporation's website's description of the BMR Purchase Program or from the BMR Purchase Program information on the City's website.

- Make program information on the website consistent with the Manual and other program materials and consider minor clarifications to PAHC's website description of the program.

- Continue providing workshops and newsletters to those on the BMR waiting list and to current BMR owners.

(5.3) Improvements to the Waiting List Procedure

- Continue the new waiting list update process and incorporate this new process in the Manual.

- Continue new process of requiring interested applicants to apply in writing and revise this process in the Manual.

- Extend deadlines for interested buyers to turn in applications after viewing the available unit(s).

- Clarify implementation of live and work preferences on the waiting list in the Manual and public information.

- Clarify implementation of any preferences for those in wheel-chairs in the Manual and in public information.

- Require BMR buyers to participate in a homebuyer education workshop that covers the BMR program requirements prior to purchase.

- Consider eliminating the two-person minimum household size requirement for smaller two-bedroom units, so that one-person households may purchase small two-bedroom units.

- Allow interested buyers to view a BMR unit being resold by a BMR owner on more than one opportunity.

- Allow developer's sales agent or team to be paid sales commissions by developer.

- Require developer's sales agents to show BMR units to interested BMR buyers during regular sales office hours for a designated number of weeks.

- Consider using a lottery system for selecting buyers for new BMR units.

(5.4) Improvements to Buyer Selection Procedures

- Clarify in the Manual the process for notifying the applicant and the developer/sales agent when an applicant is qualified to purchase a particular BMR unit.

- Clarify in the Manual the process for City to assign its option to purchase to the qualified buyer and include a model form in the Manual.

- Clarify in the Manual the unit selection process by buyers.

- Work with FNMA, FHA and CalHFA to revise City deed restrictions to comply with FNMA, FHA, and CalHFA guidelines so that borrowers may obtain down payment assistance, favorable underwriting terms, and favorable interest rates and terms available with FNMA-conforming loans, FHA loans, and CalHFA loans and grants.

- Require buyers to sign a disclosure of BMR requirements in the deed restrictions.

- Consider requiring (vs. optional) homebuyer education workshops for all waiting list members.

(5.5) Improvements to the Applicant Screening/Underwriting Criteria

- Set income limits for resale units at the same income category as the income category originally required for that particular unit.
- Reference the requirement that the buyer's income must fall below certain income limits in the Eligibility section of the Manual and include the City's current version of its published income limits for BMR ownership housing in the Manual.
- Base maximum asset limits to a percentage of median home prices in Palo Alto or Santa Clara County, with a higher asset limit for seniors, such as an asset limit up to a certain percent of the median market rate home value.
- Deduct assets to be used for the down payment and closing costs when calculating projected income from assets.
- Consider increasing the maximum gift limits, but to no more than 50% of the BMR purchase price.
- If the City adopts a down payment requirement for BMR ownership units, restrict down payment funds to meet the City's down payment requirement from loans or conditional grants.
- Eliminate the City's current policy requiring non-seniors, those below 62 years of age, to obtain a mortgage loan for at least 50% of the BMR value.
- Establish a combined-loan-to-value limit for mortgage financings after the purchase of the BMR unit at 95% of the BMR value, or the outstanding balance of the combined loan amounts, whichever is more, for BMR units.
- Establish a maximum total debt-to-income limit of 45% for buyers of BMR units with incomes below 50% of AMI.
- Limit first mortgage financing for BMR units to a fixed interest-rate loan for very-low or low- income buyers.
- Prohibit loans that increase in size (negative amortization loans, reverse equity mortgages, option adjustable rate mortgages, some interest only loans) or have balloon payments or have huge monthly payment increases (some interest only loans) secured by BMR units.
- Prohibit equity lines of credit secured by BMR units.

(5.6) Improvements to the BMR Purchase Program Resale Procedures

- Clarify in the Manual the assignment of the City's right to purchase process and implementation of the various resale deadlines.
- Revise the City's deed restrictions to include a Notice of Contemplated Sale process and include implementation procedures for this process in the Manual.
- To improve seller cooperation during the sale of the BMR unit, add language to the City's deed restrictions, such as extending City performance deadlines if the seller does not meet performance deadlines for the seller, requiring that the seller comply with scheduled inspections (appraisal, termite, etc.), and requiring that the unit be in a showable condition.
- Consider allowing BMR owners to select income-eligible BMR buyers certified by the City's program administrator.
- Require that a real estate agent be retained by the BMR seller and/or the BMR buyer.
- Consider allowing the cost of a real estate broker's commission to be added to the BMR resale price.

Section 6: Policy Analysis Recommendations

We recommend that the City of Palo Alto consider the following; it is noted that many policies are linked to one another.

In-Lieu Fee Program

- Expand the program to cover all residential construction, including projects of under 5 units and all additions to residential structures. This measure would add substantial funds for many components of the affordable housing program.
- Adopt a per square foot fee for applications of very small projects, particularly those that do not entail an immediate sale (such as custom built houses or residential additions).
- For larger projects, either stay with the percent of sales price program currently in place or calculate a customized fee for each project (see below)

On-Site BMR Compliance

- Prepare customized BMR compliance analysis for each multi-family project to generate greater BMR value to the City to enhance flexibility in meeting the BMR requirement to the benefit of both the developer and City, and to give all parties a clearer understanding of the ground rules. See standardized methodology and examples.

Land Dedication Option

- Clarify the land dedication option. The City can use the results of a customized BMR analysis which determines the total value of the BMR requirement. The dedicated land parcel should be required to be of equal value to the BMR requirement, per the recommended appraisal procedure, and subject to minimum standards.

- If the City wishes to encourage land dedication (see Rental BMR Program below), it should offer a discount on the land valuation required relative to the BMR requirement. We recommend a 20% to 25% discount.

Increasing the Supply of Rental BMR Units

- The City should pursue policies and programs to enable development of more affordable rental units for several compelling reasons: 1) to broaden the effectiveness of the BMR program and reach more lower income households; 2) to take advantage of powerful state and federal financing measures which leverage local dollars to produce more units; and 3) to take advantage of the lesser long term administrative burdens on the City associated with rental BMR units as compared to ownership BMR units.

- Adopt a land dedication requirement for projects over the 5 acre threshold to increase sites for the development of rental units. Projects over 5 acres should be required to meet their BMR obligation by dedicating 20% of the site, subject to certain standards for the site, and following the recommended procedures. For projects under 5 acres, the land dedication option should be encouraged with an incentive discount.

- Expand the BMR program to cover all residential construction (repeat of #1 above) to substantially increase in-lieu funds to subsidize the development of affordable rental units.

Other policy options for consideration (not recommendations at this time):

- Pursue a program component for households in the 120% to 150% median income tier, or those priced out of most market rate for sale units yet not served by the BMR program.

- Pursue a policy that would apply the BMR requirement to the zoned density as expressed in units per acre of a land parcel instead of the proposed development program.

APPENDIX A

Existing BMR Inventory

Existing BMR Inventory
BMR Program Update
City of Palo Alto

Project Name	Address & Unit Number	Square Ft	Bedrooms	Yr Built	Last Sale Date	Last Recorded Sales Price
ABITARE	425 Alma St. 111	1015	2	1985	10/31/2003	$152,900
ABITARE	425 Alma St. 211	1015	2	1985	1/11/1985	$97,000
ABITARE	427 Alma St. 206	1015	2	1985	4/23/2003	$154,000
ABITARE	432 High St. 302	950	2	1985	1/1/1986	$87,300
ABITARE	436 High St. 104	850	2	1985	12/19/2003	$136,100
ABITARE	436 High St. 204	850	2	1985	12/5/2002	$135,500
ABITARE	436 High St. 303	950	2	1985	10/27/1994	$97,500
ABITARE	436 High St. 304	785	2	1985	6/16/2004	$121,100
ABITARE	436 High St. 404	785	2	1985	7/30/2003	$119,100
ASHBY COURT	718 Ashby Ct.	1524	3	1985	8/1/1985	$102,900
ASHBY COURT	720 Ashby Ct.	1524	3	1985	9/1/1985	$102,900
BARRON SQUARE	502 Thain Ave. 42		1	1979	9/1/1979	$28,000
BARRON SQUARE	504 Thain Ave. 43		1	1979	9/1/1979	$28,000
BARRON SQUARE	506 Thain Way		1	1979	10/20/2000	$71,800
BARRON SQUARE	508 Thain Way	900	2	1979	6/23/2000	$72,600
BARRON SQUARE	510 Thain Ave. 40		1	1979	9/1/1979	$28,000
BARRON SQUARE	514 Thain Way 46		1	1979	9/15/1997	$51,100
BAUTISTA COURT	922 Bautista Ct.	1500	3	1998	7/29/1999	$188,000
BAUTISTA COURT	924 Bautista Ct.	1500	3	1984	4/16/1992	$107,000
BIRCH COURT	2502 Birch St.	666	1	1984	6/1/1984	$35,000
BIRCH COURT	2506 Birch St.	666	1	1984	5/1/1984	$35,000
BIRCH COURT	2508 Birch St.	666	1	1984	6/11/2004	$54,300
BIRCH COURT	2510 Birch St.			1984		$99,800
BIRCH COURT	2514 Birch St.	666	1	1984	5/1/1984	$35,000
BIRCH COURT	2516 Birch St.	666	1	1984	7/1/1988	$36,400
BIRCH COURT	302 Grant	895	2	1984	1995	$146,000
BIRCH COURT	306 Grant	673	1	1984		$99,800
BIRCH COURT	308 Grant	895	2	1984	2000	$0
BIRCH COURT	310 Grant	666	1	1984		$0
BIRCH COURT	312 Grant	666	1	1984		$101,800
BIRCH COURT	318 Grant	673	1	1984		$103,800
BIRCH COURT	320 Grant	666	1	1984	1988	$112,500
BIRCH COURT	322 Grant	928	2	1984	1984	$125,250
BIRCH COURT	330 Grant	895	2	1984	1994	$158,500
BIRCH COURT	340 Grant	895	2	1984	1989	$139,000
BIRCH COURT	346 Grant	895	2	1984	1990	$0
BIRCH COURT	350 Grant	899	2	1984	1984	$119,850
BIRCH COURT	354 Grant	899	2	1984	1984	$123,850
BIRCH COURT	356 Grant	899	2	1984	1984	$119,850
BIRCH COURT	360 Grant	895	2	1984	1985	$115,700
BIRCH COURT	362 Grant	895	2	1984	1993	$147,000
BRYANT COURT	336 Bryant Court	1377	3	1997	6/26/1997	$146,550
CAMINO PLACE	4173 El Camino Real 3	1375	3	1992	2/1/1992	$110,000
CAMINO PLACE	4173 El Camino Real 4	1375	3	1992	4/1/1992	$110,000
CAMINO PLACE	4173 El Camino Real 7	1375	3	1992	7/1/1992	$110,000
CAMINO PLACE	4173 El Camino Real 8	1375	3	1992	4/1/1992	$110,000
CHANNING COURT	917 Cowper St.	685	1	1985	9/1/1985	$71,400
CHANNING PLACE	529 Channing Ave. 5		2	1976	8/1/1979	$41,500
CHANNING PLACE	547 Channing Ave. 24		2	1976	12/1/1984	$56,700
CHARLESTON VILLAGE	800 E. Charleston 2	1360	2	1990	2/1/1990	$100,000
CHARLESTON VILLAGE	800 E. Charleston 4	1850	3	1990	3/1/1990	$115,000
CHRISTENSEN COURT	737 Loma Verde 10		2	1992	5/1/1992	$91,000
CLASSICS AT BARRON PARK	510 Driscoll Place 25	1585	3	2000	4/28/2000	$198,950
CLASSICS AT BARRON PARK	530 Driscoll Place 25	1611	3	2000	4/21/2000	$198,950
CLASSICS AT BARRON PARK	533 Driscoll Place 25	1611	3	2000	6/30/2000	$198,950
CLASSICS AT BARRON PARK	545 Driscoll Place 25	1611	3	2000	4/21/2000	$198,950
COLORADO PLACE	1064 Colorado Place	1295	2	1981	9/29/1993	$72,100
COLORADO PLACE	1068 Colorado Place	1295	2	1981	10/1/1981	$44,500
FOOTHILL GREEN	4158 Crosby Place	914	2	1974	8/1/1978	$35,300
FOOTHILL GREEN	4160 Crosby Place	1200	3	1974	7/1/1976	$34,500
FOOTHILL GREEN	4174 Wallis Court	914	2	1974	8/1/1978	$35,600
FOOTHILL GREEN	4176 Wallis Court	1200	3	1974	8/1/1987	$78,000
FOUR TEN SHERIDAN	410 Sheridan Ave. 104		1	1977	6/22/1999	$69,572
FOUR TEN SHERIDAN	410 Sheridan Ave. 111		1	1977	1/17/2003	$95,800

Existing BMR Inventory
BMR Program Update
City of Palo Alto

Project Name	Address & Unit Number	Square Ft	Bedrooms	Yr Built	Last Sale Date	Last Recorded Sales Price
FOUR TEN SHERIDAN	410 Sheridan Ave. 218		1	1977	1/20/1994	$64,400
FOUR TEN SHERIDAN	410 Sheridan Ave. 225		1	1977	11/1/1977	$29,700
FOUR TEN SHERIDAN	410 Sheridan Ave. 339		1	1977	12/1/1989	$66,100
GREENHOUSE I	777 San Anotnio Rd. 35	1213	3	1975	7/1/1993	$114,300
GREENHOUSE I	777 San Antonio Rd. 101	1213	3	1975	11/1/1981	$56,800
GREENHOUSE I	777 San Antonio Rd. 129	1213	3	1975	12/1/1975	$33,000
GREENHOUSE I	777 San Antonio Rd. 130	1213	3	1975	7/1/1987	$73,400
GREENHOUSE I	777 San Antonio Rd. 22	946	2	1975	4/1/1983	$66,100
GREENHOUSE I	777 San Antonio Rd. 23	946	2	1975	12/1/1983	$68,300
GREENHOUSE I	777 San Antonio Rd. 36	1213	3	1975	5/1/1982	$80,100
GREENHOUSE I	777 San Antonio Rd. 41	946	2	1975	3/1/1991	$80,700
GREENHOUSE I	777 San Antonio RD. 45	946	2	1975	12/23/1998	$87,536
GREENHOUSE I	777 San Antonio Rd. 57	1213	3	1975	12/1/1975	$33,000
GREENHOUSE I	777 San Antonio Rd. 58	1213	3	1975	10/1/1977	$37,500
GREENHOUSE I	777 San Antonio Rd. 70	1213	3	1975	8/1/1993	$123,400
GREENHOUSE I	777 San Antonio Rd. 76	1213	3	1975	8/31/1995	$94,500
GREENHOUSE I	777 San Antonio Rd. 84	1213	3	1975	12/1/1975	$33,000
GREENHOUSE II	765 San Antonio Rd. 1		3	1976	12/1/1976	$38,000
GREENHOUSE II	765 San Antonio Rd. 13		2	1976	9/1/1979	$39,100
GREENHOUSE II	765 San Antonio Rd. 2	1212	3	1976	6/21/2001	$127,500
GREENHOUSE II	765 San Antonio Rd. 27	1212	3	1976	12/1/1976	$38,000
GREENHOUSE II	765 San Antonio Rd. 41		2	1976	1/1/1978	$33,900
GREENHOUSE II	765 San Antonio Rd. 42		2	1976	2/1/1977	$31,000
GREENHOUSE II	765 San Antonio Rd. 79	1212	3	1976	2/29/1996	$109,300
GREENHOUSE II	765 San Antonio Rd. 83		2	1976	2/24/2003	$116,500
GREENHOUSE II	765 San Antonio Rd. 84		2	1976	10/1/1983	$54,800
GREENHOUSE II	765 San Antonio Rd. 9	1212	3	1976	10/25/2000	$122,600
HAMLET	4151 El Camino Way F	938	2	1988	7/1/1994	$100,800
HAMLET	4151 El Camino Way G	938	2	1988	8/23/1995	$109,700
HAMLET	4151 El Camino Way H	640	1	1988	2/1/1988	$72,600
HAMLET	4151 El Camino Way K	640	1	1988	3/1/1992	$77,200
HAMLET	4161 El Camino Way E	938	2	1988	3/1/1988	$93,500
HAMLET	4161 El Camino Way F	938	2	1988	3/1/1990	$95,800
JACOBS COURT	407 Jacobs Court 19	856	2	1993	7/1/1993	$100,800
JACOBS COURT	410 Jacobs Court 1	856	2	1993	7/1/1993	$100,800
JACOBS COURT	456 Jacobs Court 5	1192	3	1993	7/1/1993	$118,900
LOMA VERDE TH	727 Loma Verde Ave. D	1430	2	1985	9/1/1985	$73,800
LOMA VERDE TH	731 Loma Verde Ave. D	1430	2	1985	5/1/1991	$79,600
LOMA VERDE VILLAGE	747 Loma Verde Ave. C	1521	3	1985	7/1/1985	$90,000
LOMA VERDE VILLAGE	749 Loma Verde Ave. B	1320	2	1985	3/26/1997	$91,800
LOMA VERDE VILLAGE	765 Loma Verde Ave. B	1320	2	1985	3/1/1990	$86,500
LOMA VERDE VILLAGE	767 Loma Verde Ave. C	1320	2	1985	7/1/1985	$80,000
OREGON GREEN	2464 W. Bayshore Rd. 1	906	2	1984	8/23/2002	$110,000
ORTEGA COURT	3722 Ortega Court	1500	3	1986	5/1/1986	$108,100
ORTEGA COURT	3724 Ortega Court	1500	3	1986	5/1/1986	$108,100
PALO ALTO CENTRAL	153 California Ave. F-221		1	1984	12/1/1988	$60,700
PALO ALTO CENTRAL	153 California Ave. F-223	660	1	1984	9/1/1991	$63,600
PALO ALTO CENTRAL	153 California Ave. F-301	660	1	1984	1/1/1985	$58,000
PALO ALTO CENTRAL	153 California Ave. F-303	660	1	1984	12/1/1984	$58,000
PALO ALTO CENTRAL	155 California Ave. G-100	880	2	1984	12/1/1984	$72,000
PALO ALTO CENTRAL	157 California Ave. H-102	880	2	1984	2/9/2001	$89,000
PALO ALTO CENTRAL	159 California Ave. J-101	1100	2	1984	7/13/1993	$96,300
PALO ALTO GREENS	4333 Cesano Court	990	2	1981	5/1/1981	$34,900
PALO ALTO GREENS	4335 Cesano Court	1158	3	1981	8/1/1984	$50,700
PALO ALTO GREENS	4339 Cesano Court	1158	3	1981	5/1/1981	$41,900
PALO ALTO GREENS	4341 Cesano Court	990	2	1981	5/1/1981	$34,900
PALO ALTO REDWOODS	4250 El Camino Real A-108	515	1	1983	5/1/1990	$62,600
PALO ALTO REDWOODS	4250 El Camino Real A-110	515	1	1983	8/1/1983	$57,000
PALO ALTO REDWOODS	4250 El Camino Real A-208	515	1	1983	4/24/1998	$69,100
PALO ALTO REDWOODS	4250 El Camino Real A-210	515	1	1983	8/1/1983	$57,000
PALO ALTO REDWOODS	4250 El Camino Real A308	515	1	1983	5/15/2004	$97,700
PALO ALTO REDWOODS	4250 El Camino Real A-310	515	1	1983	9/1/1983	$57,000
PALO ALTO REDWOODS	4250 El Camino Real B-113	515	1	1983	11/1/1983	$57,000
PALO ALTO REDWOODS	4250 El Camino Real B-115	515	1	1983	11/1/1983	$57,000

Existing BMR Inventory
BMR Program Update
City of Palo Alto

Project Name	Address & Unit Number	Square Ft	Bedrooms	Yr Built	Last Sale Date	Last Recorded Sales Price
PALO ALTO REDWOODS	4250 El Camino Real B-215	515	1	1983	1/3/1992	$64,600
PALO ALTO REDWOODS	4250 El Camino Real B-313	515	1	1983	11/1/1989	$62,100
PALO ALTO REDWOODS	4250 El Camino Real B-315	515	1	1983	11/1/1983	$57,000
PALO ALTO REDWOODS	4250 El Camino B-213	515	1	1983	11/15/2003	$96,000
PROMENADE	2557 Park Blvd. L-100		2	1994	7/24/1998	$87,880
PROMENADE	2561 Park Blvd. N-101	830	2	1994	3/25/1994	$83,000
PROMENADE	2567 Park Blvd. Q-100	830	2	1994	11/9/2001	$90,500
PROMENADE	2573 Park Blvd. U-102	830	2	1994	10/1/1994	$83,000
PROMENADE	2575 Park Blvd. S-100	830	2	1994	3/3/1994	$83,000
PROMENADE	2579 Park Blvd. X-100	830	2	1994	12/1/1994	$83,000
PROMENADE	2583 Park Blvd. W-100	830	2	1994	10/1/1994	$83,000
RAMONA COURTS	223 Homer Ave. 10	800	St	1989	4/27/2001	$100,900
ROSEWALK	444 San Antonio Rd. 1-C	1550	2	1988	7/1/1988	$100,000
ROSEWALK	444 San Antonio Rd. 1-D	1825	3	1988	7/1/1988	$115,000
ROSEWALK	444 San Antonio Rd. 2-B	1550	2	1988	6/1/1988	$100,000
ROSEWALK	444 San Antonio Rd. 4-C	1550	2	1988	3/1/1988	$100,000
SAN ANTONIO VILLAGE	670 San Antonio Rd. 4	1350	3	1979	4/1/1979	$39,000
SAN ANTONIO VILLAGE	670 San Antonio Rd. 5	1350	3	1979	3/10/1994	$93,700
SILVERWOOD CONDOS	435 Sheridan Ave. 106	1298	2	2000	2/10/2000	$169,450
SILVERWOOD CONDOS	435 Sheridan Ave. 107	1298	2	2000	4/21/2000	$169,450
SILVERWOOD CONDOS	435 Sheridan Ave. 204	1505	3	2000	2/10/2000	$198,950
SPANISH VILLAGE	1251 Alma St.	1340	3	1993	4/26/1993	$126,200
TALISMAN DRIVE	772 Talisman Dr.	1500	3	1987	6/1/1990	$104,000
TALISMAN DRIVE	774 Talisman Dr.	1500	3	1987	5/1/1987	$100,000
TERRACE BAY HOMES	3065 Middlefield Rd. 101	1100	2	1988	5/1/1988	$80,000
TERRACE BAY HOMES	3069 Middlefield Rd. 101	1100	2	1988	8/1/1988	$80,000
VILLA DE LAS PLAZAS	4055 Villa Vista	1100	2	1978	8/14/1997	$110,474
VILLA DE LAS PLAZAS	4061 Villa Vista	1100	2	1978	6/1/1978	$40,000
VILLA DE LAS PLAZAS	4075 Villa Vista	1100	2	1978	5/1/1988	$77,200
VILLA DE LAS PLAZAS	4091 Villa Vista	1100	2	1978	7/1/1978	$40,000
VILLA SAN ALMA	4232 Ponce Dr.	750	1	1975	4/1/1990	$63,700
VILLA SAN ALMA	4238 Ponce Dr.	750	1	1975	8/1/1978	$28,900
VILLA SAN ALMA	4244 Ponce Dr.	1128	2	1975	2/1/1992	$92,200
VILLA SAN ALMA	4250 Ponce Dr.	1128	2	1975	5/15/2001	$101,800
VILLA SAN ALMA	4256 Ponce Dr.	1128	2	1975	6/1/1979	$39,400
VILLA SAN ALMA	4262 Ponce Dr.	1128	2	1975	7/1/1983	$56,500
VILLA SAN ALMA	4268 Ponce Dr.	750	1	1975	6/1/1975	$23,000
VILLA SAN ALMA	4272 Ponce Dr.	750	1	1975	8/30/2001	$59,900
VISTA TOWNHOUSES	568 Vista Ave. 15	608	1	1979	8/1/1979	$31,000
VISTA TOWNHOUSES	576 Vista Ave. 10	608	1	1979	7/1/1979	$31,000
WISTERIA	4114 Wisteria Lane 12	1600	3	2000	9/15/2000	$240,000
Total Units	169					

	Average Recorded Unit Sales Price	*Average Sales Price/SF*
All Units	***$85,339***	***$92***
One Bedrooms	***$58,648***	***$76***
Two Bedrooms	***$88,608***	***$82***
Three Bedrooms	***$105,769***	***$75***
Units Built in the 1970s	***$61,522***	***$42***
Units Built in the 1980s	***$85,967***	***$96***
Units Built in the 1990s	***$106,032***	***$86***
Units Built in the 2000s	***$196,706***	***$130***

Note: 75 of the 169 units have never re-sold.

APPENDIX B

Appendix Tables

Appendix B - Table 1
Existing BMR Inventory
BMR Program Update
City of Palo Alto

Project Name	Address & Unit Number	Square Ft	Bedrooms	Yr Built	Last Sale Date	Last Recorded Sales Price
ABITARE	436 High St. 304	785	2	1985	6/16/2004	$121,100
BIRCH COURT	2508 Birch St.	666	1	1984	6/11/2004	$54,300
PALO ALTO REDWOODS	4250 El Camino Real A308	515	1	1983	5/15/2004	$97,700
ABITARE	436 High St. 104	850	2	1985	12/19/2003	$136,100
ABITARE	425 Alma St. 111	1015	2	1985	10/31/2003	$152,900
ABITARE	436 High St. 404	785	2	1985	7/30/2003	$119,100
ABITARE	427 Alma St. 206	1015	2	1985	4/23/2003	$154,000
PALO ALTO REDWOODS	4250 El Camino B-213	515	1	1983	11/15/2003	$96,000
FOUR TEN SHERIDAN	410 Sheridan Ave. 111		1	1977	1/17/2003	$95,800
GREENHOUSE II	765 San Antonio Rd. 83		2	1976	2/24/2003	$116,500
ABITARE	436 High St. 204	850	2	1985	12/5/2002	$135,500
OREGON GREEN	2464 W. Bayshore Rd. 1	906	2	1984	8/23/2002	$110,000
PROMENADE	2567 Park Blvd. Q-100	830	2	1994	11/9/2001	$90,500
RAMONA COURTS	223 Homer Ave. 10	800	St	1989	4/27/2001	$100,900
PALO ALTO CENTRAL	157 California Ave. H-102	880	2	1984	2/9/2001	$89,000
GREENHOUSE II	765 San Antonio Rd. 2	1212	3	1976	6/21/2001	$127,500
VILLA SAN ALMA	4272 Ponce Dr.	750	1	1975	8/30/2001	$59,900
VILLA SAN ALMA	4250 Ponce Dr.	1128	2	1975	5/15/2001	$101,800
WISTERIA	4114 Wisteria Lane 12	1600	3	2000	9/15/2000	$240,000
CLASSICS AT BARRON PARK	533 Driscoll Place 25	1611	3	2000	6/30/2000	$198,950
CLASSICS AT BARRON PARK	510 Driscoll Place 25	1585	3	2000	4/28/2000	$198,950
CLASSICS AT BARRON PARK	530 Driscoll Place 25	1611	3	2000	4/21/2000	$198,950
CLASSICS AT BARRON PARK	545 Driscoll Place 25	1611	3	2000	4/21/2000	$198,950
SILVERWOOD CONDOS	435 Sheridan Ave. 107	1298	2	2000	4/21/2000	$169,450
SILVERWOOD CONDOS	435 Sheridan Ave. 106	1298	2	2000	2/10/2000	$169,450
SILVERWOOD CONDOS	435 Sheridan Ave. 204	1505	3	2000	2/10/2000	$198,950
BIRCH COURT	308 Grant	895	2	1984	2000	$0
BARRON SQUARE	506 Thain Way		1	1979	10/20/2000	$71,800
BARRON SQUARE	508 Thain Way	900	2	1979	6/23/2000	$72,600
GREENHOUSE II	765 San Antonio Rd. 9	1212	3	1976	10/25/2000	$122,600
BAUTISTA COURT	922 Bautista Ct.	1500	3	1998	7/29/1999	$188,000
FOUR TEN SHERIDAN	410 Sheridan Ave. 104		1	1977	6/22/1999	$69,572
PROMENADE	2557 Park Blvd. L-100		2	1994	7/24/1998	$87,880
PALO ALTO REDWOODS	4250 El Camino Real A-208	515	1	1983	4/24/1998	$69,100
GREENHOUSE I	777 San Antonio RD. 45	946	2	1975	12/23/1998	$87,536
BRYANT COURT	336 Bryant Court	1377	3	1997	6/26/1997	$146,550
LOMA VERDE VILLAGE	749 Loma Verde Ave. B	1320	2	1985	3/26/1997	$91,800
BARRON SQUARE	514 Thain Way 46		1	1979	9/15/1997	$51,100
VILLA DE LAS PLAZAS	4055 Villa Vista	1100	2	1978	8/14/1997	$110,474
GREENHOUSE II	765 San Antonio Rd. 79	1212	3	1976	2/29/1996	$109,300
HAMLET	4151 El Camino Way G	938	2	1988	8/23/1995	$109,700
BIRCH COURT	302 Grant	895	2	1984	1995	$146,000
GREENHOUSE I	777 San Antonio Rd. 76	1213	3	1975	8/31/1995	$94,500
PROMENADE	2579 Park Blvd. X-100	830	2	1994	12/1/1994	$83,000
PROMENADE	2573 Park Blvd. U-102	830	2	1994	10/1/1994	$83,000
PROMENADE	2583 Park Blvd. W-100	830	2	1994	10/1/1994	$83,000
PROMENADE	2561 Park Blvd. N-101	830	2	1994	3/25/1994	$83,000
PROMENADE	2575 Park Blvd. S-100	830	2	1994	3/3/1994	$83,000
HAMLET	4151 El Camino Way F	938	2	1988	7/1/1994	$100,800
ABITARE	436 High St. 303	950	2	1985	10/27/1994	$97,500
BIRCH COURT	330 Grant	895	2	1984	1994	$158,500
SAN ANTONIO VILLAGE	670 San Antonio Rd. 5	1350	3	1979	3/10/1994	$93,700
FOUR TEN SHERIDAN	410 Sheridan Ave. 218		1	1977	1/20/1994	$64,400
JACOBS COURT	407 Jacobs Court 19	856	2	1993	7/1/1993	$100,800
JACOBS COURT	410 Jacobs Court 1	856	2	1993	7/1/1993	$100,800
JACOBS COURT	456 Jacobs Court 5	1192	3	1993	7/1/1993	$118,900
SPANISH VILLAGE	1251 Alma St.	1340	3	1993	4/26/1993	$126,200
BIRCH COURT	362 Grant	895	2	1984	1993	$147,000
PALO ALTO CENTRAL	159 California Ave. J-101	1100	2	1984	7/13/1993	$96,300
COLORADO PLACE	1064 Colorado Place	1295	2	1981	9/29/1993	$72,100
GREENHOUSE I	777 San Antonio Rd. 70	1213	3	1975	8/1/1993	$123,400
GREENHOUSE I	777 San Anotnio Rd. 35	1213	3	1975	7/1/1993	$114,300
CAMINO PLACE	4173 El Camino Real 7	1375	3	1992	7/1/1992	$110,000
CHRISTENSEN COURT	737 Loma Verde 10		2	1992	5/1/1992	$91,000
CAMINO PLACE	4173 El Camino Real 4	1375	3	1992	4/1/1992	$110,000
CAMINO PLACE	4173 El Camino Real 8	1375	3	1992	4/1/1992	$110,000
CAMINO PLACE	4173 El Camino Real 3	1375	3	1992	2/1/1992	$110,000

Appendix B - Table 1
Existing BMR Inventory
BMR Program Update
City of Palo Alto

Project Name	Address & Unit Number	Square Ft	Bedrooms	Yr Built	Last Sale Date	Last Recorded Sales Price
HAMLET	4151 El Camino Way K	640	1	1988	3/1/1992	$77,200
BAUTISTA COURT	924 Bautista Ct.	1500	3	1984	4/16/1992	$107,000
PALO ALTO REDWOODS	4250 El Camino Real B-215	515	1	1983	1/3/1992	$64,600
VILLA SAN ALMA	4244 Ponce Dr.	1128	2	1975	2/1/1992	$92,200
LOMA VERDE TH	731 Loma Verde Ave. D	1430	2	1985	5/1/1991	$79,600
PALO ALTO CENTRAL	153 California Ave. F-223	660	1	1984	9/1/1991	$63,600
GREENHOUSE I	777 San Antonio Rd. 41	946	2	1975	3/1/1991	$80,700
CHARLESTON VILLAGE	800 E. Charleston 4	1850	3	1990	3/1/1990	$115,000
CHARLESTON VILLAGE	800 E. Charleston 2	1360	2	1990	2/1/1990	$100,000
HAMLET	4161 El Camino Way F	938	2	1988	3/1/1990	$95,800
TALISMAN DRIVE	772 Talisman Dr.	1500	3	1987	6/1/1990	$104,000
LOMA VERDE VILLAGE	765 Loma Verde Ave. B	1320	2	1985	3/1/1990	$86,500
BIRCH COURT	346 Grant	895	2	1984	1990	$0
PALO ALTO REDWOODS	4250 El Camino Real A-108	515	1	1983	5/1/1990	$62,600
VILLA SAN ALMA	4232 Ponce Dr.	750	1	1975	4/1/1990	$63,700
BIRCH COURT	340 Grant	895	2	1984	1989	$139,000
PALO ALTO REDWOODS	4250 El Camino Real B-313	515	1	1983	11/1/1989	$62,100
FOUR TEN SHERIDAN	410 Sheridan Ave. 339		1	1977	12/1/1989	$66,100
TERRACE BAY HOMES	3069 Middlefield Rd. 101	1100	2	1988	8/1/1988	$80,000
ROSEWALK	444 San Antonio Rd. 1-C	1550	2	1988	7/1/1988	$100,000
ROSEWALK	444 San Antonio Rd. 1-D	1825	3	1988	7/1/1988	$115,000
ROSEWALK	444 San Antonio Rd. 2-B	1550	2	1988	6/1/1988	$100,000
TERRACE BAY HOMES	3065 Middlefield Rd. 101	1100	2	1988	5/1/1988	$80,000
HAMLET	4161 El Camino Way E	938	2	1988	3/1/1988	$93,500
ROSEWALK	444 San Antonio Rd. 4-C	1550	2	1988	3/1/1988	$100,000
HAMLET	4151 El Camino Way H	640	1	1988	2/1/1988	$72,600
BIRCH COURT	320 Grant	666	1	1984	1988	$112,500
PALO ALTO CENTRAL	153 California Ave. F-221		1	1984	12/1/1988	$60,700
BIRCH COURT	2516 Birch St.	666	1	1984	7/1/1988	$36,400
VILLA DE LAS PLAZAS	4075 Villa Vista	1100	2	1978	5/1/1988	$77,200
TALISMAN DRIVE	774 Talisman Dr.	1500	3	1987	5/1/1987	$100,000
GREENHOUSE I	777 San Antonio Rd. 130	1213	3	1975	7/1/1987	$73,400
FOOTHILL GREEN	4176 Wallis Court	1200	3	1974	8/1/1987	$78,000
ORTEGA COURT	3722 Ortega Court	1500	3	1986	5/1/1986	$108,100
ORTEGA COURT	3724 Ortega Court	1500	3	1986	5/1/1986	$108,100
ABITARE	432 High St. 302	950	2	1985	1/1/1986	$87,300
ASHBY COURT	720 Ashby Ct.	1524	3	1985	9/1/1985	$102,900
CHANNING COURT	917 Cowper St.	685	1	1985	9/1/1985	$71,400
LOMA VERDE TH	727 Loma Verde Ave. D	1430	2	1985	9/1/1985	$73,800
ASHBY COURT	718 Ashby Ct.	1524	3	1985	8/1/1985	$102,900
LOMA VERDE VILLAGE	747 Loma Verde Ave. C	1521	3	1985	7/1/1985	$90,000
LOMA VERDE VILLAGE	767 Loma Verde Ave. C	1320	2	1985	7/1/1985	$80,000
ABITARE	425 Alma St. 211	1015	2	1985	1/11/1985	$97,000
BIRCH COURT	360 Grant	895	2	1984	1985	$115,700
PALO ALTO CENTRAL	153 California Ave. F-301	660	1	1984	1/1/1985	$58,000
BIRCH COURT	322 Grant	928	2	1984	1984	$125,250
BIRCH COURT	350 Grant	899	2	1984	1984	$119,850
BIRCH COURT	354 Grant	899	2	1984	1984	$123,850
BIRCH COURT	356 Grant	899	2	1984	1984	$119,850
PALO ALTO CENTRAL	153 California Ave. F-303	660	1	1984	12/1/1984	$58,000
PALO ALTO CENTRAL	155 California Ave. G-100	880	2	1984	12/1/1984	$72,000
BIRCH COURT	2502 Birch St.	666	1	1984	6/1/1984	$35,000
BIRCH COURT	2506 Birch St.	666	1	1984	5/1/1984	$35,000
BIRCH COURT	2514 Birch St.	666	1	1984	5/1/1984	$35,000
PALO ALTO GREENS	4335 Cesano Court	1158	3	1981	8/1/1984	$50,700
CHANNING PLACE	547 Channing Ave. 24		2	1976	12/1/1984	$56,700
PALO ALTO REDWOODS	4250 El Camino Real B-113	515	1	1983	11/1/1983	$57,000
PALO ALTO REDWOODS	4250 El Camino Real B-115	515	1	1983	11/1/1983	$57,000
PALO ALTO REDWOODS	4250 El Camino Real B-315	515	1	1983	11/1/1983	$57,000
PALO ALTO REDWOODS	4250 El Camino Real A-310	515	1	1983	9/1/1983	$57,000
PALO ALTO REDWOODS	4250 El Camino Real A-110	515	1	1983	8/1/1983	$57,000
PALO ALTO REDWOODS	4250 El Camino Real A-210	515	1	1983	8/1/1983	$57,000
GREENHOUSE II	765 San Antonio Rd. 84		2	1976	10/1/1983	$54,800
GREENHOUSE I	777 San Antonio Rd. 23	946	2	1975	12/1/1983	$68,300
VILLA SAN ALMA	4262 Ponce Dr.	1128	2	1975	7/1/1983	$56,500
GREENHOUSE I	777 San Antonio Rd. 22	946	2	1975	4/1/1983	$66,100
GREENHOUSE I	777 San Antonio Rd. 36	1213	3	1975	5/1/1982	$80,100

Appendix B - Table 1
Existing BMR Inventory
BMR Program Update
City of Palo Alto

Project Name	Address & Unit Number	Square Ft	Bedrooms	Yr Built	Last Sale Date	Last Recorded Sales Price
COLORADO PLACE	1068 Colorado Place	1295	2	1981	10/1/1981	$44,500
PALO ALTO GREENS	4333 Cesano Court	990	2	1981	5/1/1981	$34,900
PALO ALTO GREENS	4339 Cesano Court	1158	3	1981	5/1/1981	$41,900
PALO ALTO GREENS	4341 Cesano Court	990	2	1981	5/1/1981	$34,900
GREENHOUSE I	777 San Antonio Rd. 101	1213	3	1975	11/1/1981	$56,800
BARRON SQUARE	502 Thain Ave. 42		1	1979	9/1/1979	$28,000
BARRON SQUARE	504 Thain Ave. 43		1	1979	9/1/1979	$28,000
BARRON SQUARE	510 Thain Ave. 40		1	1979	9/1/1979	$28,000
VISTA TOWNHOUSES	568 Vista Ave. 15	608	1	1979	8/1/1979	$31,000
VISTA TOWNHOUSES	576 Vista Ave. 10	608	1	1979	7/1/1979	$31,000
SAN ANTONIO VILLAGE	670 San Antonio Rd. 4	1350	3	1979	4/1/1979	$39,000
GREENHOUSE II	765 San Antonio Rd. 13		2	1976	9/1/1979	$39,100
CHANNING PLACE	529 Channing Ave. 5		2	1976	8/1/1979	$41,500
VILLA SAN ALMA	4256 Ponce Dr.	1128	2	1975	6/1/1979	$39,400
VILLA DE LAS PLAZAS	4091 Villa Vista	1100	2	1978	7/1/1978	$40,000
VILLA DE LAS PLAZAS	4061 Villa Vista	1100	2	1978	6/1/1978	$40,000
GREENHOUSE II	765 San Antonio Rd. 41		2	1976	1/1/1978	$33,900
VILLA SAN ALMA	4238 Ponce Dr.	750	1	1975	8/1/1978	$28,900
FOOTHILL GREEN	4158 Crosby Place	914	2	1974	8/1/1978	$35,300
FOOTHILL GREEN	4174 Wallis Court	914	2	1974	8/1/1978	$35,600
FOUR TEN SHERIDAN	410 Sheridan Ave. 225		1	1977	11/1/1977	$29,700
GREENHOUSE II	765 San Antonio Rd. 42		2	1976	2/1/1977	$31,000
GREENHOUSE I	777 San Antonio Rd. 58	1213	3	1975	10/1/1977	$37,500
GREENHOUSE II	765 San Antonio Rd. 1		3	1976	12/1/1976	$38,000
GREENHOUSE II	765 San Antonio Rd. 27	1212	3	1976	12/1/1976	$38,000
FOOTHILI GREEN	4160 Crosby Place	1200	3	1974	7/1/1976	$34,500
GREENHOUSE I	777 San Antonio Rd. 129	1213	3	1975	12/1/1975	$33,000
GREENHOUSE I	777 San Antonio Rd. 57	1213	3	1975	12/1/1975	$33,000
GREENHOUSE I	777 San Antonio Rd. 84	1213	3	1975	12/1/1975	$33,000
VILLA SAN ALMA	4268 Ponce Dr.	750	1	1975	6/1/1975	$23,000
BIRCH COURT	2510 Birch St.			1984		$99,800
BIRCH COURT	306 Grant	673	1	1984		$99,800
BIRCH COURT	310 Grant	666	1	1984		$0
BIRCH COURT	312 Grant	666	1	1984		$101,800
BIRCH COURT	318 Grant	673	1	1984		$103,800
Total Units	169					

	Average Recorded Unit Sales Price	***Average Sales Price/SF***
All Units	***$85,339***	***$92***
One Bedrooms	***$58,648***	***$76***
Two Bedrooms	***$88,608***	***$82***
Three Bedrooms	***$105,769***	***$75***
Units Built in the 1970s	***$61,522***	***$42***
Units Built in the 1980s	***$85,967***	***$96***
Units Built in the 1990s	***$106,032***	***$86***
Units Built in the 2000s	***$196,706***	***$130***

Appendix B - Table 2
Market Rate Transactions in BMR Complexes, May 2002 - May 2005
BMR Program Update
City of Palo Alto

Project Name	Site Address	SF	# Bed	Yr Built	Yr of Sale	Recorded Sale Price	Recorded Sale Pr/SF	Estimate Sales Pr, 2005	2005 Sale Price/SF
ABITARE	427 ALMA ST 308	890	2	1984	2003	$406,000	$456	$495,406	$557
ABITARE	436 HIGH ST 103	950	2	1984	2003	$435,000	$458	$530,792	$559
ABITARE	427 ALMA ST 307	850	2	1984	2004	$449,000	$528	$500,100	$588
ABITARE	436 HIGH ST 403	790	2	1984	2004	$475,000	$601	$529,059	$670
ABITARE	427 ALMA ST 207	820	2	1984	2004	$523,000	$638	$582,522	$710
ABITARE	425 ALMA ST 311	955	2	1984	2003	$540,000	$565	$658,914	$690
ABITARE	425 ALMA ST 309	890	2	1984	2004	$549,000	$617	$611,481	$687
ABITARE	427 ALMA ST 106	1015	2	1984	2003	$565,000	$557	$689,420	$679
ABITARE	427 ALMA ST 306	1015	2	1984	2003	$571,000	$563	$696,741	$686
ABITARE	427 ALMA ST 208	950	2	1984	2005	$639,000	$673	$639,000	$673
ABITARE	432 HIGH ST 102	950	2	1984	2005	$680,000	$716	$680,000	$716
ABITARE	432 HIGH ST 401	1000	2	1984	2004	$725,000	$725	$807,512	$808
ABITARE	436 HIGH ST 404	715	2	1984	2003				
ABITARE	436 HIGH ST 105	1015	2	1984	2004				
ABITARE	432 HIGH ST 202	950	2	1984	2004				
BARRON SQUARE	4102 THAIN WAY	1445	2	1980	2003	$450,000	$311	$549,095	$380
BARRON SQUARE	584 THAIN WAY	1541	2	1980	2002	$525,500	$341	$652,859	$424
BARRON SQUARE	4130 THAIN WAY	1445	2	1980	2002	$541,000	$374	$672,115	$465
BARRON SQUARE	541 THAIN WAY	1445	2	1980	2004	$541,000	$374	$602,571	$417
BARRON SQUARE	4112 THAIN WAY	1541	2	1980	2004	$576,000	$374	$641,554	$416
BARRON SQUARE	4150 THAIN WAY	1890	3	1980	2002	$660,000	$349	$819,956	$434
BARRON SQUARE	564 THAIN WAY	2123	3	1980	2003	$670,000	$316	$817,542	$385
BARRON SQUARE	561 THAIN WAY	1445	2	1980	2005	$749,000	$518	$749,000	$518
BARRON SQUARE	4170 THAIN WAY	2123	3	1980	2005	$1,058,000	$498	$1,058,000	$498
BARRON SQUARE	553 THAIN WAY	1541	2	1980	2004				
BARRON SQUARE	550 THAIN WAY	2123	3	1980	2003				
BIRCH COURT	2512 BIRCH ST	673	1	1983	2004	$375,000	$557	$417,678	$621
BIRCH COURT	338 GRANT AVE	899	2	1983	2002	$405,000	$451	$503,155	$560
BIRCH COURT	334 GRANT AVE	899	2	1983	2003	$420,000	$467	$512,489	$570
BIRCH COURT	324 GRANT AVE	928	2	1983	2004	$465,000	$501	$517,921	$558
BIRCH COURT	326 GRANT AVE	673	1	1983	2003				
CAMINO PLACE	4173 EL CAMINO REAL 14	1375	2	1992	2003	$602,000	$438	$734,568	$534
CAMINO PLACE	4173 EL CAMINO REAL 11	1375	2	1992	2003	$620,000	$451	$756,531	$550
CAMINO PLACE	4173 EL CAMINO REAL 10	1375	2	1992	2002	$647,000	$471	$803,805	$585
CAMINO PLACE	4173 EL CAMINO REAL 34	2010	3	1992	2003	$750,000	$373	$915,159	$455
CAMINO PLACE	4173 EL CAMINO REAL 30	2010	3	1992	2003	$775,000	$386	$945,664	$470
CAMINO PLACE	4173 EL CAMINO REAL 1	1730	3	1992	2004	$775,000	$448	$863,202	$499
CAMINO PLACE	4173 EL CAMINO REAL 41	2010	3	1992	2004	$835,000	$415	$930,030	$463
CAMINO PLACE	4173 EL CAMINO REAL 25	2010	3	1992	2005	$921,000	$458	$921,000	$458
CAMINO PLACE	4173 EL CAMINO REAL 24	1730	3	1992	2005	$1,000,000	$578	$1,000,000	$578
CAMINO PLACE	4173 EL CAMINO REAL 43	2010	3	1992	2003				
CAMINO PLACE	4173 EL CAMINO REAL 35	2010	3	1992	2004				
CHANNING COURT	905 COWPER ST	1700	3	1984	2004	$920,000	$541	$1,024,704	$603
CHANNING PLACE	531 CHANNING AVE	1038	2	1974	2003	$510,000	$491	$622,308	$600
CHANNING PLACE	507 CHANNING AVE 9	1183	3	1974	2002	$550,000	$465	$683,297	$578
CHANNING PLACE	545 CHANNING AVE	1183	3	1974	2004	$670,000	$566	$746,252	$631
CHANNING PLACE	521 CHANNING AVE	1038	2	1974	2003				
CHANNING PLACE	537 CHANNING AVE	1183	3	1974	2002				
CHANNING PLACE	527 CHANNING AVE	1183	3	1974	2003				
CHANNING PLACE	525 CHANNING AVE	1183	3	1974	2004				
CHARLESTON VILLAGE	800 E CHARLESTON RD 8	1359	2	1989	2003	$578,000	$425	$705,282	$519
CHARLESTON VILLAGE	800 E CHARLESTON RD 19	1850	3	1989	2003	$682,000	$369	$832,185	$450
CHARLESTON VILLAGE	800 E CHARLESTON RD 16	1733	3	1989	2004	$765,000	$441	$852,064	$492
CHARLESTON VILLAGE	800 E CHARLESTON RD 3	1359	2	1989	2005	$767,000	$564	$767,000	$564
CHARLESTON VILLAGE	800 E CHARLESTON RD 5	1850	3	1989	2002	$790,000	$427	$981,462	$531
CHARLESTON VILLAGE	800 E CHARLESTON RD 27	1733	3	1989	2004	$810,000	$467	$902,185	$521
CHARLESTON VILLAGE	800 E CHARLESTON RD 31	1359	2	1989	2004				
CHARLESTON VILLAGE	800 E CHARLESTON RD 12	1733	3	1989	2003				
CHRISTENSEN COURT	737 LOMA VERDE AVE 3	1460	2	1992	2002	$650,000	$445	$807,532	$553
CHRISTENSEN COURT	737 LOMA VERDE AVE 11	1460	2	1992	2004	$850,000	$582	$946,738	$648
CHRISTENSEN COURT	737 LOMA VERDE AVE 8	1500	3	1992	2004				
CLASSICS AT BARRON PARK	542 DRISCOLL PL	1836	3	2000	2003	$740,000	$403	$902,957	$492
CLASSICS AT BARRON PARK	502 DRISCOLL PL	1778	3	2000	2004	$780,000	$439	$868,771	$489

Appendix B - Table 2
Market Rate Transactions in BMR Complexes, May 2002 - May 2005
BMR Program Update
City of Palo Alto

Project Name	Site Address	SF	# Bed	Yr Built	Yr of Sale	Recorded Sale Price	Recorded Sale Pr/SF	Estimate Sales Pr, 2005	2005 Sale Price/SF
CLASSICS AT BARRON PARK	514 DRISCOLL PL	1836	3	2000	2004	$799,000	$435	$889,933	$485
CLASSICS AT BARRON PARK	538 DRISCOLL PL	1836	3	2000	2004	$805,000	$438	$896,616	$488
CLASSICS AT BARRON PARK	546 DRISCOLL PL	1836	3	2000	2002	$818,000	$446	$1,016,248	$554
CLASSICS AT BARRON PARK	521 DRISCOLL PL	1559	3	2000	2004	$821,000	$527	$914,437	$587
CLASSICS AT BARRON PARK	562 DRISCOLL PL	1836	3	2000	2005	$910,000	$496	$910,000	$496
CLASSICS AT BARRON PARK	537 DRISCOLL PL	1836	3	2000	2003				
COLORADO PLACE	1062 COLORADO AVE	1572	2	1981	2002	$475,000	$302	$590,120	$375
COLORADO PLACE	1072 COLORADO AVE	1572	2	1981	2002	$476,000	$303	$591,362	$376
COLORADO PLACE	1042 COLORADO AVE	1572	2	1981	2004	$515,000	$328	$573,612	$365
COLORADO PLACE	1070 COLORADO AVE	1572	2	1981	2004	$524,000	$333	$583,636	$371
COLORADO PLACE	1066 COLORADO AVE	1572	2	1981	2002				
FOUR TEN SHERIDAN	410 SHERIDAN AVE 332	804	1	1977	2002	$320,000	$398	$397,554	$494
FOUR TEN SHERIDAN	410 SHERIDAN AVE 333	897	1	1977	2002	$325,000	$362	$403,766	$450
FOUR TEN SHERIDAN	410 SHERIDAN AVE 107	624	1	1977	2004	$375,000	$601	$417,678	$669
FOUR TEN SHERIDAN	410 SHERIDAN AVE 105	897	1	1977	2004	$450,000	$502	$501,214	$559
FOUR TEN SHERIDAN	410 SHERIDAN AVE 328	804	1	1977	2005	$475,000	$591	$475,000	$591
FOUR TEN SHERIDAN	410 SHERIDAN AVE 445	1293	2	1977	2002	$485,000	$375	$602,543	$466
FOUR TEN SHERIDAN	410 SHERIDAN AVE 227	1135	2	1977	2004	$490,000	$432	$545,766	$481
FOUR TEN SHERIDAN	410 SHERIDAN AVE 106	1135	2	1977	2005	$535,000	$471	$535,000	$471
FOUR TEN SHERIDAN	410 SHERIDAN AVE 220	1135	2	1977	2002				
FOUR TEN SHERIDAN	410 SHERIDAN AVE 224	1293	2	1977	2004				
FOUR TEN SHERIDAN	410 SHERIDAN AVE 334	1135	2	1977	2004				
GREENHOUSE I	777 SAN ANTONIO RD 20	946	2	1974	2003	$364,000	$385	$444,157	$470
GREENHOUSE I	777 SAN ANTONIO RD 126	946	2	1974	2003	$375,000	$396	$457,579	$484
GREENHOUSE I	777 SAN ANTONIO RD 109	1030	2	1974	2003	$388,000	$377	$473,442	$460
GREENHOUSE I	777 SAN ANTONIO RD 25	946	2	1974	2002	$390,000	$412	$484,519	$512
GREENHOUSE I	777 SAN ANTONIO RD 123	946	2	1974	2004	$410,000	$433	$456,662	$483
GREENHOUSE I	777 SAN ANTONIO RD 30	1212	3	1974	2003	$434,000	$358	$529,572	$437
GREENHOUSE I	777 SAN ANTONIO RD 17	1030	2	1974	2004	$435,000	$422	$484,507	$470
GREENHOUSE I	777 SAN ANTONIO RD 99	1212	3	1974	2002	$450,000	$371	$559,061	$461
GREENHOUSE I	777 SAN ANTONIO RD 31	1030	2	1974	2004	$460,000	$447	$512,352	$497
GREENHOUSE I	777 SAN ANTONIO RD 34	1030	2	1974	2004	$460,000	$447	$512,352	$497
GREENHOUSE I	777 SAN ANTONIO RD 85	1212	3	1974	2003	$460,000	$380	$561,297	$463
GREENHOUSE I	777 SAN ANTONIO RD 55	1030	2	1974	2004	$476,000	$462	$530,173	$515
GREENHOUSE I	777 SAN ANTONIO RD 62	1030	2	1974	2005	$492,000	$478	$492,000	$478
GREENHOUSE I	777 SAN ANTONIO RD 120	1212	3	1974	2004	$515,000	$425	$573,612	$473
GREENHOUSE I	777 SAN ANTONIO RD 79	1030	2	1974	2005	$537,000	$521	$537,000	$521
GREENHOUSE I	777 SAN ANTONIO RD 68	1212	3	1974	2004	$550,000	$454	$612,595	$505
GREENHOUSE I	777 SAN ANTONIO RD 80	1030	2	1974	2002				
GREENHOUSE I	777 SAN ANTONIO RD 82	1030	2	1974	2002				
GREENHOUSE I	777 SAN ANTONIO RD 53	946	2	1974	2003				
GREENHOUSE I	777 SAN ANTONIO RD 1	1068	2	1974	2004				
GREENHOUSE I	777 SAN ANTONIO RD 124	946	2	1974	2004				
GREENHOUSE I	777 SAN ANTONIO RD 9	1030	2	1974	2005				
GREENHOUSE I	777 SAN ANTONIO RD 114	1212	3	1974	2003				
GREENHOUSE I	777 SAN ANTONIO RD 57	1212	3	1974	2005				
GREENHOUSE II	765 SAN ANTONIO RD 56	946	2	1976	2004	$323,000	$341	$359,760	$380
GREENHOUSE II	765 SAN ANTONIO RD 11	946	2	1976	2003	$358,000	$378	$436,836	$462
GREENHOUSE II	765 SAN ANTONIO RD 52	1030	2	1976	2003	$395,000	$383	$481,984	$468
GREENHOUSE II	765 SAN ANTONIO RD 67	1030	2	1976	2003	$405,000	$393	$494,186	$480
GREENHOUSE II	765 SAN ANTONIO RD 28	1212	3	1976	2003	$414,000	$342	$505,168	$417
GREENHOUSE II	765 SAN ANTONIO RD 73	1212	3	1976	2003	$435,000	$359	$530,792	$438
GREENHOUSE II	765 SAN ANTONIO RD 12	946	2	1976	2005	$459,000	$485	$459,000	$485
GREENHOUSE II	765 SAN ANTONIO RD 75	1030	2	1976	2004	$460,100	$447	$512,464	$498
GREENHOUSE II	765 SAN ANTONIO RD 85	946	2	1976	2005	$466,000	$493	$466,000	$493
GREENHOUSE II	765 SAN ANTONIO RD 29	1030	2	1976	2004	$467,000	$453	$520,149	$505
GREENHOUSE II	765 SAN ANTONIO RD 16	1212	3	1976	2002	$470,000	$388	$583,908	$482
GREENHOUSE II	765 SAN ANTONIO RD 20	1030	2	1976	2005	$475,000	$461	$475,000	$461
GREENHOUSE II	765 SAN ANTONIO RD 70	1030	2	1976	2005	$489,000	$475	$489,000	$475
GREENHOUSE II	765 SAN ANTONIO RD 74	1212	3	1976	2004	$504,000	$416	$561,360	$463
GREENHOUSE II	765 SAN ANTONIO RD 80	1212	3	1976	2004	$504,000	$416	$561,360	$463
GREENHOUSE II	765 SAN ANTONIO RD 68	1030	2	1976	2005	$548,000	$532	$548,000	$532
GREENHOUSE II	765 SAN ANTONIO RD 26	1030	2	1976	2002				

Appendix B - Table 2
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Project Name	Site Address	SF	# Bed	Yr Built	Yr of Sale	Recorded Sale Price	Recorded Sale Pr/SF	Estimate Sales Pr, 2005	2005 Sale Price/SF
GREENHOUSE II	765 SAN ANTONIO RD 55	946	2	1976	2002				
GREENHOUSE II	765 SAN ANTONIO RD 24	1030	2	1976	2003				
GREENHOUSE II	765 SAN ANTONIO RD 40	946	2	1976	2004				
HAMLET	4157 EL CAMINO WAY F	1119	2	1987	2003	$371,000	$332	$452,699	$405
HAMLET	4151 EL CAMINO WAY E	639	1	1987	2004	$375,000	$587	$417,678	$654
HAMLET	4151 EL CAMINO WAY J	639	1	1987	2004	$375,000	$587	$417,678	$654
HAMLET	4159 EL CAMINO WAY A	1224	2	1987	2003	$395,000	$323	$481,984	$394
HAMLET	4159 EL CAMINO WAY N	1224	2	1987	2004	$417,727	$341	$465,268	$380
HAMLET	4157 EL CAMINO WAY	1119	2	1987	2004	$425,000	$380	$473,369	$423
HAMLET	4157 EL CAMINO WAY	1399	3	1987	2003	$444,500	$318	$542,384	$388
HAMLET	4149 EL CAMINO WAY E	1399	3	1987	2004	$447,000	$320	$497,873	$356
HAMLET	4159 EL CAMINO WAY L	1224	2	1987	2004	$450,000	$368	$501,214	$409
HAMLET	4151 EL CAMINO WAY M	938	2	1987	2005	$465,000	$496	$465,000	$496
HAMLET	4153 EL CAMINO WAY C	1119	2	1987	2005	$486,000	$434	$486,000	$434
HAMLET	4159 EL CAMINO WAY O	1224	2	1987	2002	$500,000	$408	$621,179	$507
HAMLET	4157 EL CAMINO WAY I	1399	3	1987	2004	$500,000	$357	$556,904	$398
HAMLET	4159 EL CAMINO WAY G	1224	2	1987	2004	$501,000	$409	$558,018	$456
HAMLET	4157 EL CAMINO WAY H	1399	3	1987	2002	$510,000	$365	$633,602	$453
HAMLET	4159 EL CAMINO WAY C	1310	2	1987	2005	$540,000	$412	$540,000	$412
HAMLET	4151 EL CAMINO WAY D	1133	2	1987	2002				
HAMLET	4159 EL CAMINO WAY E	1310	2	1987	2004				
HAMLET	4161 EL CAMINO WAY C	1224	2	1987	2004				
JACOBS COURT	417 JACOBS CT	1679	3	1993	2003				
JACOBS COURT	475 JACOBS CT	1422	3	1993	2004				
JACOBS COURT	437 JACOBS CT	1422	3	1993	2004				
JACOBS COURT	480 JACOBS CT	1439	3	1993	2005				
LOMA VERDE TH	727 LOMA VERDE AVE E	1638	3	1985	2002	$442,000	$270	$549,122	$335
LOMA VERDE TH	725 LOMA VERDE AVE C	1426	2	1985	2003	$560,000	$393	$683,319	$479
LOMA VERDE TH	727 LOMA VERDE AVE F	1554	2	1985	2003	$590,000	$380	$719,925	$463
LOMA VERDE TH	729 LOMA VERDE AVE A	1578	2	1985	2002	$598,000	$379	$742,930	$471
LOMA VERDE TH	727 LOMA VERDE AVE B	1554	2	1985	2003	$625,000	$402	$762,632	$491
LOMA VERDE TH	727 LOMA VERDE AVE A	1638	3	1985	2002	$625,000	$382	$776,473	$474
LOMA VERDE TH	731 LOMA VERDE AVE H	1554	2	1985	2002				
LOMA VERDE TH	725 LOMA VERDE AVE A	1426	3	1985	2004				
LOMA VERDE VILLAGE	751 LOMA VERDE AVE A	1435	2	1985	2002	$578,000	$403	$718,083	$500
LOMA VERDE VILLAGE	747 LOMA VERDE AVE B	1494	2	1985	2003	$609,000	$408	$743,109	$497
LOMA VERDE VILLAGE	749 LOMA VERDE AVE C	1435	2	1985	2003	$615,000	$429	$750,430	$523
LOMA VERDE VILLAGE	773 LOMA VERDE AVE A	1549	3	1985	2004	$672,500	$434	$749,037	$484
LOMA VERDE VILLAGE	769 LOMA VERDE AVE B	1549	3	1985	2004	$761,000	$491	$847,609	$547
LOMA VERDE VILLAGE	763 LOMA VERDE AVE B	1549	3	1985	2005	$811,000	$524	$811,000	$524
LOMA VERDE VILLAGE	765 LOMA VERDE AVE A	1435	2	1985	2004	$665,000	$463	$740,683	$516
LOMA VERDE VILLAGE	755 LOMA VERDE AVE C	1435	2	1985	2003				
LOMA VERDE VILLAGE	769 LOMA VERDE AVE A	1435	2	1985	2003				
LOMA VERDE VILLAGE	773 LOMA VERDE AVE	1494	2	1985	2004				
OREGON GREEN	2464 W BAYSHORE RD 4	906	2	1972	2003	$305,000	$337	$372,165	$411
OREGON GREEN	2460 W BAYSHORE RD 6	906	2	1972	2004	$307,500	$339	$342,496	$378
OREGON GREEN	2468 W BAYSHORE RD 4	906	2	1972	2003	$318,000	$351	$388,027	$428
OREGON GREEN	2462 W BAYSHORE RD 2	906	2	1972	2004	$320,000	$353	$356,419	$393
OREGON GREEN	2456 W BAYSHORE RD 4	906	2	1972	2003	$325,000	$359	$396,569	$438
OREGON GREEN	2468 W BAYSHORE RD 3	906	2	1972	2004	$325,000	$359	$361,988	$400
OREGON GREEN	2468 W BAYSHORE RD 7	906	2	1972	2004	$325,000	$359	$361,988	$400
OREGON GREEN	2454 W BAYSHORE RD 6	906	2	1972	2004	$325,000	$359	$361,988	$400
OREGON GREEN	2466 W BAYSHORE RD 1	906	2	1972	2003	$335,000	$370	$408,771	$451
OREGON GREEN	2458 W BAYSHORE RD 7	906	2	1972	2004	$335,000	$370	$373,126	$412
OREGON GREEN	2468 W BAYSHORE RD 10	906	2	1972	2004	$340,000	$375	$378,695	$418
OREGON GREEN	2460 W BAYSHORE RD 4	906	2	1972	2004	$342,000	$377	$380,923	$420
OREGON GREEN	2458 W BAYSHORE RD 8	906	2	1972	2002	$371,000	$409	$460,915	$509
OREGON GREEN	2450 W BAYSHORE RD 11	1134	3	1972	2003	$385,000	$340	$469,782	$414
OREGON GREEN	2450 W BAYSHORE RD 9	1134	3	1972	2003	$390,000	$344	$475,883	$420
OREGON GREEN	2468 W BAYSHORE RD 9	906	2	1972	2005	$393,181	$434	$393,181	$434
OREGON GREEN	2458 W BAYSHORE RD 3	906	2	1972	2005	$428,000	$472	$428,000	$472
OREGON GREEN	2452 W BAYSHORE RD 4	1134	3	1972	2004	$433,000	$382	$482,279	$425
OREGON GREEN	2450 W BAYSHORE RD 6	1134	3	1972	2005	$440,000	$388	$440,000	$388

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OREGON GREEN	2452 W BAYSHORE RD 5	1134	3	1972	2005	$470,000	$414	$470,000	$414
OREGON GREEN	2456 W BAYSHORE RD 3	906	2	1972	2002				
OREGON GREEN	2468 W BAYSHORE RD 1	906	2	1972	2003				
PALO ALTO CENTRAL	161 S CALIFORNIA AVE K10	1117	2	1982	2003	$460,000	$412	$561,297	$503
PALO ALTO CENTRAL	153 S CALIFORNIA AVE F20	1247	2	1982	2004	$ 498,000	$399	$554,677	$445
PALO ALTO CENTRAL	125 S CALIFORNIA AVE D40	764	1	1982	2002	$ 349,000	$457	$433,583	$568
PALO ALTO CENTRAL	117 S CALIFORNIA AVE D40	782	1	1982	2002	$ 365,000	$467	$453,461	$580
PALO ALTO CENTRAL	117 S CALIFORNIA AVE D20	1247	2	1982	2004	$ 511,000	$410	$569,156	$456
PALO ALTO REDWOODS	4250 EL CAMINO REAL A30	607	1	1983	2004	$325,000	$535	$361,988	$596
PALO ALTO REDWOODS	4250 EL CAMINO REAL 101	885	1	1983	2003	$337,500	$381	$411,822	$465
PALO ALTO REDWOODS	4250 EL CAMINO REAL 322	679	1	1983	2003	$342,000	$504	$417,312	$615
PALO ALTO REDWOODS	4250 EL CAMINO REAL 134	679	1	1983	2004	$345,000	$508	$384,264	$566
PALO ALTO REDWOODS	4250 EL CAMINO REAL C22	679	1	1983	2003	$347,000	$511	$423,414	$624
PALO ALTO REDWOODS	4250 EL CAMINO REAL 229	679	1	1983	2003	$349,000	$514	$425,854	$627
PALO ALTO REDWOODS	4250 EL CAMINO REAL 102	885	1	1983	2003	$350,000	$395	$427,074	$483
PALO ALTO REDWOODS	4250 EL CAMINO REAL 337	885	1	1983	2003	$350,000	$395	$427,074	$483
PALO ALTO REDWOODS	4250 EL CAMINO REAL D23	885	1	1983	2003	$355,000	$401	$433,175	$489
PALO ALTO REDWOODS	4250 EL CAMINO REAL 127	960	1	1983	2002	$360,000	$375	$447,249	$466
PALO ALTO REDWOODS	4250 EL CAMINO REAL A20	885	1	1983	2003	$360,000	$407	$439,276	$496
PALO ALTO REDWOODS	4250 EL CAMINO REAL 307	943	1	1983	2003	$361,000	$383	$440,496	$467
PALO ALTO REDWOODS	4250 EL CAMINO REAL 125	1032	1	1983	2003	$366,000	$355	$446,598	$433
PALO ALTO REDWOODS	4250 EL CAMINO REAL 330	679	1	1983	2004	$372,500	$549	$414,894	$611
PALO ALTO REDWOODS	4250 EL CAMINO REAL 202	885	1	1983	2003	$374,000	$423	$456,359	$516
PALO ALTO REDWOODS	4250 EL CAMINO REAL A20	885	1	1983	2003	$375,000	$424	$457,579	$517
PALO ALTO REDWOODS	4250 EL CAMINO REAL 338	885	1	1983	2003	$375,000	$424	$457,579	$517
PALO ALTO REDWOODS	4250 EL CAMINO REAL 323	960	1	1983	2002	$390,000	$406	$484,519	$505
PALO ALTO REDWOODS	4250 EL CAMINO REAL B21	960	1	1983	2004	$393,000	$409	$437,727	$456
PALO ALTO REDWOODS	4250 EL CAMINO REAL B31	1135	1	1983	2003	$394,000	$347	$480,763	$424
PALO ALTO REDWOODS	4250 EL CAMINO REAL B31	960	1	1983	2004	$400,500	$417	$446,080	$465
PALO ALTO REDWOODS	4250 EL CAMINO REAL D13	960	1	1983	2004	$411,000	$428	$457,775	$477
PALO ALTO REDWOODS	4250 EL CAMINO REAL 327	960	1	1983	2004	$418,000	$435	$465,572	$485
PALO ALTO REDWOODS	4250 EL CAMINO REAL 317	1141	2	1983	2002	$420,000	$368	$521,790	$457
PALO ALTO REDWOODS	4250 EL CAMINO REAL B11	1057	1	1983	2004	$422,000	$399	$470,027	$445
PALO ALTO REDWOODS	4250 EL CAMINO REAL D33	960	1	1983	2004	$450,000	$469	$501,214	$522
PALO ALTO REDWOODS	4250 EL CAMINO REAL 128	1141	2	1983	2005	$560,000	$491	$560,000	$491
PALO ALTO REDWOODS	4250 EL CAMINO REAL 139	1141	2	1983	2005	$585,000	$513	$585,000	$513
PALO ALTO REDWOODS	4250 EL CAMINO REAL 106	885	1	1983	2002				
PALO ALTO REDWOODS	4250 EL CAMINO REAL 119	960	1	1983	2003				
PALO ALTO REDWOODS	4250 EL CAMINO REAL 216	1057	1	1983	2003				
PALO ALTO REDWOODS	4250 EL CAMINO REAL 235	960	1	1983	2003				
PALO ALTO REDWOODS	4250 EL CAMINO REAL 133	885	1	1983	2004				
PALO ALTO REDWOODS	4250 EL CAMINO REAL 239	1141	2	1983	2003				
PROMENADE	2569 PARK BLVD T10	833	2	1993	2003	$425,000	$510	$518,590	$623
PROMENADE	2577 PARK BLVD V10	833	2	1993	2003	$450,000	$540	$549,095	$659
PROMENADE	2559 PARK BLVD M10	923	2	1993	2004	$500,000	$542	$556,904	$603
PROMENADE	2583 PARK BLVD W11	1261	2	1993	2002	$530,000	$420	$658,450	$522
PROMENADE	2573 PARK BLVD U20	1230	2	1993	2004	$530,000	$431	$590,319	$480
PROMENADE	2579 PARK BLVD X20	1230	2	1993	2003	$550,000	$447	$671,117	$546
PROMENADE	2583 PARK BLVD W20	1290	2	1993	2004	$553,000	$429	$615,936	$477
PROMENADE	2585 PARK BLVD Z21	1230	2	1993	2004	$553,000	$450	$615,936	$501
PROMENADE	2585 PARK BLVD Z21	1230	2	1993	2004	$554,000	$450	$617,050	$502
PROMENADE	2585 PARK BLVD Z20	1230	2	1993	2002	$558,000	$454	$693,236	$564
PROMENADE	2557 PARK BLVD L10	1261	2	1993	2004	$579,545	$460	$645,502	$512
PROMENADE	2583 PARK BLVD W10	1261	2	1993	2004	$590,000	$468	$657,147	$521
PROMENADE	2557 PARK BLVD L20	1290	2	1993	2003	$603,000	$467	$735,788	$570
PROMENADE	2569 PARK BLVD T10	1261	2	1993	2002				
PROMENADE	2579 PARK BLVD X10	1105	2	1993	2003				
PROMENADE	2581 PARK BLVD Y20	1230	2	1993	2004				
PROMENADE	2585 PARK BLVD Z10	1105	2	1993	2004				
PROMENADE	2557 PARK BLVD L110	1282	2	1993	2005				
RAMONA COURT	239 HOMER AVE	1410	2	1987	2002	$775,000	$550	$962,827	$683
RAMONA COURT	231 HOMER AVE	1805	3	1987	2003	$799,000	$443	$974,949	$540
RAMONA COURT	237 HOMER AVE 1	1820	2	1987	2003	$829,000	$455	$1,011,556	$556

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RAMONA COURT	227 HOMER AVE	1350	2	1987	2004				
RAMONA COURT	233 HOMER AVE	1540	2	1987	2004				
ROSEWALK	444 SAN ANTONIO RD 8C	1556	2	1988	2003	$585,000	$376	$713,824	$459
ROSEWALK	444 SAN ANTONIO RD 10B	1556	2	1988	2002	$598,000	$384	$742,930	$477
ROSEWALK	444 SAN ANTONIO RD 7B	1556	2	1988	2003	$605,000	$389	$738,228	$474
ROSEWALK	444 SAN ANTONIO RD 5B	1556	2	1988	2004	$624,000	$401	$695,017	$447
ROSEWALK	444 SAN ANTONIO RD 11C	1556	2	1988	2002	$625,000	$402	$776,473	$499
ROSEWALK	444 SAN ANTONIO RD 6A	1826	3	1988	2002	$665,000	$364	$826,168	$452
ROSEWALK	444 SAN ANTONIO RD 8D	1826	3	1988	2003	$700,000	$383	$854,148	$468
ROSEWALK	444 SAN ANTONIO RD 1A	1826	3	1988	2004	$711,000	$389	$791,918	$434
ROSEWALK	444 SAN ANTONIO RD 8A	1826	3	1988	2004	$750,000	$411	$835,357	$457
ROSEWALK	444 SAN ANTONIO RD 7A	1826	3	1988	2004	$760,000	$416	$846,495	$464
ROSEWALK	444 SAN ANTONIO RD 11A	1826	3	1988	2004	$765,000	$419	$852,064	$467
ROSEWALK	444 SAN ANTONIO RD 10D	1826	3	1988	2004	$782,000	$428	$870,999	$477
ROSEWALK	444 SAN ANTONIO RD 9D	1826	3	1988	2004	$821,000	$450	$914,437	$501
ROSEWALK	444 SAN ANTONIO RD 9B	1556	2	1988	2004				
ROSEWALK	444 SAN ANTONIO RD 2D	1826	3	1988	2004				
ROSEWALK	444 SAN ANTONIO RD 2A	1826	3	1988	2004				
ROSEWALK	444 SAN ANTONIO RD 5A	1826	3	1988	2004				
ROSEWALK	444 SAN ANTONIO RD 12D	1826	3	1988	2004				
SAN ANTONIO VILLAGE	670 SAN ANTONIO RD 30	1380	3	1979	2002	$508,000	$368	$631,118	$457
SAN ANTONIO VILLAGE	670 SAN ANTONIO RD 25	1382	3	1979	2002	$510,000	$369	$633,602	$458
SAN ANTONIO VILLAGE	670 SAN ANTONIO RD 16	1380	3	1979	2002	$551,000	$399	$684,539	$496
SAN ANTONIO VILLAGE	670 SAN ANTONIO RD 35	1382	3	1979	2003	$575,000	$416	$701,622	$508
SAN ANTONIO VILLAGE	670 SAN ANTONIO RD 13	1382	3	1979	2004	$590,000	$427	$657,147	$476
SAN ANTONIO VILLAGE	670 SAN ANTONIO RD 23	1382	3	1979	2003	$522,500	$378	$637,561	$461
SAN ANTONIO VILLAGE	670 SAN ANTONIO RD 27	1380	3	1979	2002				
SAN ANTONIO VILLAGE	670 SAN ANTONIO RD 40	1380	3	1979	2003				
SILVERWOOD CONDOS	435 SHERIDAN AVE 205	1597	2	2000	2002	$610,000	$382	$757,838	$475
SILVERWOOD CONDOS	435 SHERIDAN AVE 209	1529	2	2000	2002	$656,000	$429	$814,987	$533
SILVERWOOD CONDOS	435 SHERIDAN AVE 208	1637	2	2000	2003	$659,000	$403	$804,120	$491
SILVERWOOD CONDOS	435 SHERIDAN AVE 308	1501	2	2000	2004	$672,000	$448	$748,480	$499
SILVERWOOD CONDOS	435 SHERIDAN AVE 306	1433	2	2000	2004	$681,000	$475	$758,504	$529
SILVERWOOD CONDOS	435 SHERIDAN AVE 109	1529	2	1999	2005	$725,000	$474	$725,000	$474
SILVERWOOD CONDOS	435 SHERIDAN AVE 203	1948	3	2000	2003	$800,000	$411	$976,170	$501
SILVERWOOD CONDOS	435 SHERIDAN AVE 105	1637	2	2000	2002				
SILVERWOOD CONDOS	435 SHERIDAN AVE 212	1718	3	2000	2004				
SILVERWOOD CONDOS	435 SHERIDAN AVE 312	2029	4	2000	2003				
SPANISH VILLAGE	1237 ALMA ST	1478	2	1990	2002	$595,000	$403	$739,203	$500
SPANISH VILLAGE	1239 ALMA ST	1423	2	1990	2004	$648,000	$455	$721,748	$507
SPANISH VILLAGE	1249 ALMA ST	1407	2	1990	2004	$650,000	$462	$723,976	$515
SPANISH VILLAGE	1243 ALMA ST	1446	2	1990	2005	$770,000	$533	$770,000	$533
SPANISH VILLAGE	1247 ALMA ST	1409	2	1990	2003				
TERRACE BAY HOMES	3069 MIDDLEFIELD RD 2F	870	1	1986	2002	$395,000	$454	$490,731	$564
TERRACE BAY HOMES	3077 MIDDLEFIELD RD 101	876	1	1986	2003	$420,000	$479	$512,489	$585
TERRACE BAY HOMES	3073 MIDDLEFIELD RD 101	876	1	1986	2004	$440,000	$502	$490,076	$559
TERRACE BAY HOMES	3073 MIDDLEFIELD RD 202	1332	3	1986	2003	$526,000	$395	$641,831	$482
TERRACE BAY HOMES	3073 MIDDLEFIELD RD 201	1480	3	1986	2004	$638,000	$431	$710,610	$480
TERRACE BAY HOMES	3069 MIDDLEFIELD RD 2C	1574	3	1986	2004	$650,000	$413	$723,976	$460
TERRACE BAY HOMES	3065 MIDDLEFIELD RD 202	1574	3	1986	2003				
VILLA SAN ALMA	4290 PONCE DR	1777	3	1975	2003	$684,000	$385		
VILLA SAN ALMA	4205 PONCE DR	1717	3	1975	2002	$760,000	$443		
VILLA SAN ALMA	138 HEMLOCK CT	1812	3	1975	2004	$769,000	$424	$856,519	$473
VILLA SAN ALMA	4226 PONCE DR	1717	3	1975	2005	$795,000	$463	$795,000	$463
VILLA SAN ALMA	137 HEMLOCK CT	1812	3	1975	2005	$815,000	$450		
VILLA SAN ALMA	4213 PONCE DR	1777	3	1975	2005	$857,000	$482	$857,000	$482
VILLA SAN ALMA	4214 PONCE DR	1812	3	1975	2004				
VILLAS DE LAS PLAZAS	4010 VILLA VIS	1764	3	1977	2002				
VILLAS DE LAS PLAZAS	570 VILLA REAL	2152	3	1977	2002				
VILLAS DE LAS PLAZAS	578 VILLA REAL	2152	3	1977	2005	$838,000	$389	$838,000	$389
VILLAS DE LAS PLAZAS	4005 VILLA VERA	1451	3	1977	2004	$695,000	$479	$774,097	$533
VILLAS DE LAS PLAZAS	4094 VILLA VIS	1764	3	1977	2002				
VISTA TOWNHOMES	560 VISTA AVE	1230	2	1979	2002	$470,000	$382	$583,908	$475

Appendix B - Table 2
Market Rate Transactions in BMR Complexes, May 2002 - May 2005
BMR Program Update
City of Palo Alto

Project Name	Site Address	SF	# Bed	Yr Built	Yr of Sale	Recorded Sale Price	Recorded Sale Pr/SF	Estimate Sales Pr, 2005	2005 Sale Price/SF
VISTA TOWNHOMES	548 VISTA AVE	1036	2	1979	2003	$495,000	$478	$604,005	$583
VISTA TOWNHOMES	564 VISTA AVE	917	2	1979	2005	$525,000	$573	$525,000	$573
VISTA TOWNHOMES	590 VISTA AVE	1181	2	1979	2004	$550,000	$466	$612,595	$519
VISTA TOWNHOMES	572 VISTA AVE	1109	2	1979	2004	$550,000	$496	$612,595	$552
VISTA TOWNHOMES	584 VISTA AVE	1216	3	1979	2002	$552,500	$454	$686,403	$564
WISTERIA	4113 WISTERIA LN	1522	3	2000	2003	$832,000	$547	$1,015,216	$667
WISTERIA	4121 WISTERIA LN	1501	3	2000	2002	$850,000	$566	$1,056,004	$704
WISTERIA	4126 WISTERIA LN	1522	3	2000	2005	$950,000	$624	$950,000	$624
WISTERIA	4101 WISTERIA LN	1701	3	2000	2004	$1,125,000	$661	$1,253,035	$737
WISTERIA	4109 WISTERIA LN	1522	3	2000	2003				
WISTERIA	4117 WISTERIA LN	1501	3	2000	2004				
WISTERIA	4118 WISTERIA LN	1501	3	2000	2004				

SALES OF MARKET RATE UNITS IN BMR COMPLEXES

	Average Recorded Price	Average Recorded Value/SF	Estimated Average Unit 2005 Value	Estimated Average 2005 Value/SF
All Units	$545,607	$438	$623,000	$502
One Bedrooms	$377,934	$456	$443,000	$534
Two Bedrooms	$514,981	$440	$590,000	$503
Three Bedrooms	$677,430	$425	$739,000	$467
Units Built in the 1970s	$474,431	$422	$505,000	$459
Units Built in the 1980s	$534,848	$437	$619,000	$506
Units Built in the 1990s	$647,881	$463	$739,000	$531
Units Built in the 2000s	$794,588	$478	$914,000	$550

(According to DataQuik, only one project built in the 2000s decade (Silverwood). Classics at Barron Park and Wisteria were also built in 2000, according to the City of Palo Alto.)

Appendix B - Table 3
Estimated Equity of BMR Inventory
BMR Program Update
City of Palo Alto

Project Name	Address & Unit Number	Square Ft	Beds	Yr Built	Last Sale Date	Last Recorded Sales Price	Estimated Current Fair Market Value	Estimated Equity	Data Source for FMV
ABITARE	425 Alma St. 111	1015	2	1985	10/31/2003	$152,900	$578,905	$426,005	Other sales in complex.
ABITARE	425 Alma St. 211	1015	2	1985	1/11/1985	$97,000	$578,905	$481,905	Other sales in complex.
ABITARE	427 Alma St. 206	1015	2	1985	4/23/2003	$154,000	$578,905	$424,905	Other sales in complex.
ABITARE	432 High St. 302	950	2	1985	1/1/1986	$87,300	$536,988	$449,688	Other sales in complex.
ABITARE	436 High St. 104	850	2	1985	12/19/2003	$136,100	$480,463	$344,363	Other sales in complex.
ABITARE	436 High St. 204	850	2	1985	12/5/2002	$135,500	$480,463	$344,963	Other sales in complex.
ABITARE	436 High St. 303	950	2	1985	10/27/1994	$97,500	$536,988	$439,488	Other sales in complex.
ABITARE	436 High St. 304	785	2	1985	6/16/2004	$121,100	$443,721	$322,621	Other sales in complex.
ABITARE	436 High St. 404	785	2	1985	7/30/2003	$119,100	$443,721	$324,621	Other sales in complex.
ASHBY COURT	718 Ashby Ct.	1524	3	1985	8/1/1985	$102,900	$775,680	$672,780	Avg. value of sim. units in DB.
ASHBY COURT	720 Ashby Ct.	1524	3	1985	9/1/1985	$102,900	$775,680	$672,780	Avg. value of sim. units in DB.
BARRON SQUARE	502 Thain Ave. 42		1	1979	9/1/1979	$28,000	$294,574	$266,574	Other sales in complex.
BARRON SQUARE	504 Thain Ave. 43		1	1979	9/1/1979	$28,000	$304,432	$276,432	Other sales in complex.
BARRON SQUARE	506 Thain Way		1	1979	10/20/2000	$71,800	$294,574	$222,774	Other sales in complex.
BARRON SQUARE	508 Thain Way	900	2	1979	6/23/2000	$72,600	$334,305	$261,705	Other sales in complex.
BARRON SQUARE	510 Thain Ave. 40		1	1979	9/1/1979	$28,000	$294,574	$266,574	Other sales in complex.
BARRON SQUARE	514 Thain Way 46		1	1979	9/15/1997	$51,100	$294,574	$243,474	Other sales in complex.
BAUTISTA COURT	922 Bautista Ct.	1500	3	1998	7/29/1999	$188,000	$763,465	$575,465	Avg. value of sim. units in DB.
BAUTISTA COURT	924 Bautista Ct.	1500	3	1984	4/16/1992	$107,000	$763,465	$656,465	Avg. value of sim. units in DB.
BIRCH COURT	2502 Birch St.	666	1	1984	6/1/1984	$35,000	$351,548	$316,548	Other sales in complex.
BIRCH COURT	2506 Birch St.	666	1	1984	5/1/1984	$35,000	$351,548	$316,548	Other sales in complex.
BIRCH COURT	2508 Birch St.	666	1	1984	6/11/2004	$54,300	$351,548	$297,248	Other sales in complex.
BIRCH COURT	2510 Birch St.			1984		$99,800	$351,548	$251,748	Other sales in complex.
BIRCH COURT	2514 Birch St.	666	1	1984	5/1/1984	$35,000	$351,548	$316,548	Other sales in complex.
BIRCH COURT	2516 Birch St.	666	1	1984	7/1/1988	$36,400	$351,548	$315,148	Other sales in complex.
BIRCH COURT	302 Grant	895	2	1984	1995	$146,000	$428,302	$282,302	Other sales in complex.
BIRCH COURT	306 Grant	673	1	1984		$99,800	$355,243	$255,443	Other sales in complex.
BIRCH COURT	308 Grant	895	2	1984	2000	$0	$428,302	$428,302	Other sales in complex.
BIRCH COURT	310 Grant	666	1	1984		$0	$351,548	$351,548	Other sales in complex.
BIRCH COURT	312 Grant	666	1	1984		$101,800	$351,548	$249,748	Other sales in complex.
BIRCH COURT	318 Grant	673	1	1984		$103,800	$355,243	$251,443	Other sales in complex.
BIRCH COURT	320 Grant	666	1	1984	1988	$112,500	$351,548	$239,048	Other sales in complex.
BIRCH COURT	322 Grant	928	2	1984	1984	$125,250	$444,094	$318,844	Other sales in complex.
BIRCH COURT	330 Grant	895	2	1984	1994	$158,500	$428,302	$269,802	Other sales in complex.
BIRCH COURT	340 Grant	895	2	1984	1989	$139,000	$428,302	$289,302	Other sales in complex.
BIRCH COURT	346 Grant	895	2	1984	1990	$0	$428,302	$428,302	Other sales in complex.
BIRCH COURT	350 Grant	899	2	1984	1984	$119,850	$430,216	$310,366	Other sales in complex.
BIRCH COURT	354 Grant	899	2	1984	1984	$123,850	$430,216	$306,366	Other sales in complex.
BIRCH COURT	356 Grant	899	2	1984	1984	$119,850	$430,216	$310,366	Other sales in complex.
BIRCH COURT	360 Grant	895	2	1984	1985	$115,700	$428,302	$312,602	Other sales in complex.
BIRCH COURT	362 Grant	895	2	1984	1993	$147,000	$428,302	$281,302	Other sales in complex.
BRYANT COURT	336 Bryant Court	1377	3	1997	6/26/1997	$146,550	$805,449	$658,899	Other sales in complex.
CAMINO PLACE	4173 El Camino Real 3	1375	3	1992	2/1/1992	$110,000	$628,788	$518,788	Other sales in complex.
CAMINO PLACE	4173 El Camino Real 4	1375	3	1992	4/1/1992	$110,000	$628,788	$518,788	Other sales in complex.
CAMINO PLACE	4173 El Camino Real 7	1375	3	1992	7/1/1992	$110,000	$628,788	$518,788	Other sales in complex.
CAMINO PLACE	4173 El Camino Real 8	1375	3	1992	4/1/1992	$110,000	$628,788	$518,788	Other sales in complex.
CHANNING COURT	917 Cowper St.	685	1	1985	9/1/1985	$71,400	$351,097	$279,697	Other sales in complex.
CHANNING PLACE	529 Channing Ave. 5		2	1976	8/1/1979	$41,500	$519,209	$477,709	Other sales in complex.
CHANNING PLACE	547 Channing Ave. 24		2	1976	12/1/1984	$56,700	$519,209	$462,509	Other sales in complex.
CHARLESTON VILLAGE	800 E. Charleston 2	1360	2	1990	2/1/1990	$100,000	$626,552	$526,552	Other sales in complex.
CHARLESTON VILLAGE	800 E. Charleston 4	1850	3	1990	3/1/1990	$115,000	$770,525	$655,525	Other sales in complex.
CHRISTENSEN COURT	737 Loma Verde 10		2	1992	5/1/1992	$91,000	$744,137	$653,137	Other sales in complex.
CLASSICS AT BARRON PARK	510 Driscoll Place 25	1585	3	2000	4/28/2000	$198,950	$677,667	$478,717	Other sales in complex.
CLASSICS AT BARRON PARK	530 Driscoll Place 25	1611	3	2000	4/21/2000	$198,950	$688,783	$489,833	Other sales in complex.
CLASSICS AT BARRON PARK	533 Driscoll Place 25	1611	3	2000	6/30/2000	$198,950	$688,783	$489,833	Other sales in complex.
CLASSICS AT BARRON PARK	545 Driscoll Place 25	1611	3	2000	4/21/2000	$198,950	$688,783	$489,833	Other sales in complex.
COLORADO PLACE	1064 Colorado Place	1295	2	1981	9/29/1993	$72,100	$409,479	$337,379	Other sales in complex.
COLORADO PLACE	1068 Colorado Place	1295	2	1981	10/1/1981	$44,500	$409,479	$364,979	Other sales in complex.
FOOTHILL GREEN	4158 Crosby Place	914	2	1974	8/1/1978	$35,300	$454,525	$419,225	Avg. value of sim. units in DB.
FOOTHILI GREEN	4160 Crosby Place	1200	3	1974	7/1/1976	$34,500	$554,040	$519,540	Avg. value of sim. units in DB.
FOOTHILL GREEN	4174 Wallis Court	914	2	1974	8/1/1978	$35,600	$454,525	$418,925	Avg. value of sim. units in DB.
FOOTHILL GREEN	4176 Wallis Court	1200	3	1974	8/1/1987	$78,000	$554,040	$476,040	Avg. value of sim. units in DB.
FOUR TEN SHERIDAN	410 Sheridan Ave. 104		1	1977	6/22/1999	$69,572	$370,398	$300,826	Other sales in complex.
FOUR TEN SHERIDAN	410 Sheridan Ave. 111		1	1977	1/17/2003	$95,800	$370,398	$274,598	Other sales in complex.
FOUR TEN SHERIDAN	410 Sheridan Ave. 218		1	1977	1/20/1994	$64,400	$370,398	$305,998	Other sales in complex.
FOUR TEN SHERIDAN	410 Sheridan Ave. 225		1	1977	11/1/1977	$29,700	$370,398	$340,698	Other sales in complex.
FOUR TEN SHERIDAN	410 Sheridan Ave. 339		1	1977	12/1/1989	$66,100	$370,398	$304,298	Other sales in complex.
GREENHOUSE I	777 San Anotnio Rd. 35	1213	3	1975	7/1/1993	$114,300	$482,531	$368,231	Other sales in complex.
GREENHOUSE I	777 San Antonio Rd. 101	1213	3	1975	11/1/1981	$56,800	$482,531	$425,731	Other sales in complex.
GREENHOUSE I	777 San Antonio Rd. 129	1213	3	1975	12/1/1975	$33,000	$482,531	$449,531	Other sales in complex.
GREENHOUSE I	777 San Antonio Rd. 130	1213	3	1975	7/1/1987	$73,400	$482,531	$409,131	Other sales in complex.
GREENHOUSE I	777 San Antonio Rd. 22	946	2	1975	4/1/1983	$66,100	$391,597	$325,497	Other sales in complex.
GREENHOUSE I	777 San Antonio Rd. 23	946	2	1975	12/1/1983	$68,300	$391,597	$323,297	Other sales in complex.
GREENHOUSE I	777 San Antonio Rd. 36	1213	3	1975	5/1/1982	$80,100	$482,531	$402,431	Other sales in complex.
GREENHOUSE I	777 San Antonio Rd. 41	946	2	1975	3/1/1991	$80,700	$391,597	$310,897	Other sales in complex.
GREENHOUSE I	777 San Antonio RD. 45	946	2	1975	12/23/1998	$87,536	$391,597	$304,061	Other sales in complex.

Appendix B - Table 3
Estimated Equity of BMR Inventory
BMR Program Update
City of Palo Alto

Project Name	Address & Unit Number	Square Ft	Beds	Yr Built	Last Sale Date	Last Recorded Sales Price	Estimated Current Fair Market Value	Estimated Equity	Data Source for FMV
GREENHOUSE I	777 San Antonio Rd. 57	1213	3	1975	12/1/1975	$33,000	$482,531	$449,531	Other sales in complex.
GREENHOUSE I	777 San Antonio Rd. 58	1213	3	1975	10/1/1977	$37,500	$482,531	$445,031	Other sales in complex.
GREENHOUSE I	777 San Antonio Rd. 70	1213	3	1975	8/1/1993	$123,400	$482,531	$359,131	Other sales in complex.
GREENHOUSE I	777 San Antonio Rd. 76	1213	3	1975	8/31/1995	$94,500	$482,531	$388,031	Other sales in complex.
GREENHOUSE I	777 San Antonio Rd. 84	1213	3	1975	12/1/1975	$33,000	$482,531	$449,531	Other sales in complex.
GREENHOUSE II	765 San Antonio Rd. 1		3	1976	12/1/1976	$38,000	$458,439	$420,439	Other sales in complex.
GREENHOUSE II	765 San Antonio Rd. 13		2	1976	9/1/1979	$39,100	$362,836	$323,736	Other sales in complex.
GREENHOUSE II	765 San Antonio Rd. 2	1212	3	1976	6/21/2001	$127,500	$466,681	$339,181	Other sales in complex.
GREENHOUSE II	765 San Antonio Rd. 27	1212	3	1976	12/1/1976	$38,000	$466,681	$428,681	Other sales in complex.
GREENHOUSE II	765 San Antonio Rd. 41		2	1976	1/1/1978	$33,900	$362,836	$328,936	Other sales in complex.
GREENHOUSE II	765 San Antonio Rd. 42		2	1976	2/1/1977	$31,000	$362,836	$331,836	Other sales in complex.
GREENHOUSE II	765 San Antonio Rd. 79	1212	3	1976	2/29/1996	$109,300	$466,681	$357,381	Other sales in complex.
GREENHOUSE II	765 San Antonio Rd. 83		2	1976	2/24/2003	$116,500	$362,836	$246,336	Other sales in complex.
GREENHOUSE II	765 San Antonio Rd. 84		2	1976	10/1/1983	$54,800	$362,836	$308,036	Other sales in complex.
GREENHOUSE II	765 San Antonio Rd. 9	1212	3	1976	10/25/2000	$122,600	$466,681	$344,081	Other sales in complex.
HAMLET	4151 El Camino Way F	938	2	1988	7/1/1994	$100,800	$344,434	$243,634	Other sales in complex.
HAMLET	4151 El Camino Way G	938	2	1988	8/23/1995	$109,700	$344,434	$234,734	Other sales in complex.
HAMLET	4151 El Camino Way H	640	1	1988	2/1/1988	$72,600	$355,776	$283,176	Other sales in complex.
HAMLET	4151 El Camino Way K	640	1	1988	3/1/1992	$77,200	$355,776	$278,576	Other sales in complex.
HAMLET	4161 El Camino Way E	938	2	1988	3/1/1988	$93,500	$344,434	$250,934	Other sales in complex.
HAMLET	4161 El Camino Way F	938	2	1988	3/1/1990	$95,800	$344,434	$248,634	Other sales in complex.
JACOBS COURT	407 Jacobs Court 19	856	2	1993	7/1/1993	$100,800	$523,515	$422,715	Other sales in complex.
JACOBS COURT	410 Jacobs Court 1	856	2	1993	7/1/1993	$100,800	$523,515	$422,715	Other sales in complex.
JACOBS COURT	456 Jacobs Court 5	1192	3	1993	7/1/1993	$118,900	$676,832	$557,932	Other sales in complex.
LOMA VERDE TH	727 Loma Verde Ave. D	1430	2	1985	9/1/1985	$73,800	$578,578	$504,778	Other sales in complex.
LOMA VERDE TH	731 Loma Verde Ave. D	1430	2	1985	5/1/1991	$79,600	$578,578	$498,978	Other sales in complex.
LOMA VERDE VILLAGE	747 Loma Verde Ave. C	1521	3	1985	7/1/1985	$90,000	$669,696	$579,696	Other sales in complex.
LOMA VERDE VILLAGE	749 Loma Verde Ave. B	1320	2	1985	3/26/1997	$91,800	$571,098	$479,298	Other sales in complex.
LOMA VERDE VILLAGE	765 Loma Verde Ave. B	1320	2	1985	3/1/1990	$86,500	$571,098	$484,598	Other sales in complex.
LOMA VERDE VILLAGE	767 Loma Verde Ave. C	1320	2	1985	7/1/1985	$80,000	$571,098	$491,098	Other sales in complex.
OREGON GREEN	2464 W. Bayshore Rd. 1	906	2	1984	8/23/2002	$110,000	$326,522	$216,522	Other sales in complex.
ORTEGA COURT	3722 Ortega Court	1500	3	1986	5/1/1986	$108,100	$763,465	$655,365	Avg. value of sim. units in DB.
ORTEGA COURT	3724 Ortega Court	1500	3	1986	5/1/1986	$108,100	$763,465	$655,365	Avg. value of sim. units in DB.
PALO ALTO CENTRAL	153 California Ave. F-221		1	1984	12/1/1988	$60,700	$321,843	$261,143	Other sales in complex
PALO ALTO CENTRAL	153 California Ave. F-223	660	1	1984	9/1/1991	$63,600	$321,843	$258,243	Other sales in complex
PALO ALTO CENTRAL	153 California Ave. F-301	660	1	1984	1/1/1985	$58,000	$321,843	$263,843	Other sales in complex
PALO ALTO CENTRAL	153 California Ave. F-303	660	1	1984	12/1/1984	$58,000	$321,843	$263,843	Other sales in complex
PALO ALTO CENTRAL	155 California Ave. G-100	880	2	1984	12/1/1984	$72,000	$337,348	$265,348	Other sales in complex
PALO ALTO CENTRAL	157 California Ave. H-102	880	2	1984	2/9/2001	$89,000	$337,348	$248,348	Other sales in complex
PALO ALTO CENTRAL	159 California Ave. J-101	1100	2	1984	7/13/1993	$96,300	$421,685	$325,385	Other sales in complex
PALO ALTO GREENS	4333 Cesano Court	990	2	1981	5/1/1981	$34,900	$542,730	$507,830	Other sales in complex.
PALO ALTO GREENS	4335 Cesano Court	1158	3	1981	8/1/1984	$50,700	$589,395	$538,695	Other sales in complex.
PALO ALTO GREENS	4339 Cesano Court	1158	3	1981	5/1/1981	$41,900	$589,395	$547,495	Other sales in complex.
PALO ALTO GREENS	4341 Cesano Court	990	2	1981	5/1/1981	$34,900	$542,730	$507,830	Other sales in complex.
PALO ALTO REDWOODS	4250 El Camino Real A-108	515	1	1983	5/1/1990	$62,600	$340,000	$277,400	Other sales in complex.
PALO ALTO REDWOODS	4250 El Camino Real A-110	515	1	1983	8/1/1983	$57,000	$340,000	$283,000	Other sales in complex.
PALO ALTO REDWOODS	4250 El Camino Real A-208	515	1	1983	4/24/1998	$69,100	$340,000	$270,900	Other sales in complex.
PALO ALTO REDWOODS	4250 El Camino Real A-210	515	1	1983	8/1/1983	$57,000	$340,000	$283,000	Other sales in complex.
PALO ALTO REDWOODS	4250 El Camino Real A308	515	1	1983	5/15/2004	$97,700	$340,000	$242,300	Other sales in complex.
PALO ALTO REDWOODS	4250 El Camino Real A-310	515	1	1983	9/1/1983	$57,000	$340,000	$283,000	Other sales in complex.
PALO ALTO REDWOODS	4250 El Camino Real B-113	515	1	1983	11/1/1983	$57,000	$340,000	$283,000	Other sales in complex.
PALO ALTO REDWOODS	4250 El Camino Real B-115	515	1	1983	11/1/1983	$57,000	$340,000	$283,000	Other sales in complex.
PALO ALTO REDWOODS	4250 El Camino Real B-215	515	1	1983	1/3/1992	$64,600	$340,000	$275,400	Other sales in complex.
PALO ALTO REDWOODS	4250 El Camino Real B-313	515	1	1983	11/1/1989	$62,100	$340,000	$277,900	Other sales in complex.
PALO ALTO REDWOODS	4250 El Camino Real B-315	515	1	1983	11/1/1983	$57,000	$340,000	$283,000	Other sales in complex.
PALO ALTO REDWOODS	4250 El Camino B-213	515	1	1983	11/15/2003	$96,000	$340,000	$244,000	Other sales in complex.
PROMENADE	2557 Park Blvd. L-100		2	1994	7/24/1998	$87,880	$443,054	$355,174	Other sales in complex.
PROMENADE	2561 Park Blvd. N-101	830	2	1994	3/25/1994	$83,000	$443,054	$360,054	Other sales in complex.
PROMENADE	2567 Park Blvd. Q-100	830	2	1994	11/9/2001	$90,500	$443,054	$352,554	Other sales in complex.
PROMENADE	2573 Park Blvd. U-102	830	2	1994	10/1/1994	$83,000	$443,054	$360,054	Other sales in complex.
PROMENADE	2575 Park Blvd. S-100	830	2	1994	3/3/1994	$83,000	$443,054	$360,054	Other sales in complex.
PROMENADE	2579 Park Blvd. X-100	830	2	1994	12/1/1994	$83,000	$443,054	$360,054	Other sales in complex.
PROMENADE	2583 Park Blvd. W-100	830	2	1994	10/1/1994	$83,000	$443,054	$360,054	Other sales in complex.
RAMONA COURTS	223 Homer Ave. 10	800	St	1989	4/27/2001	$100,900	$464,440	$363,540	Other sales in complex.
ROSEWALK	444 San Antonio Rd. 1-C	1550	2	1988	7/1/1988	$100,000	$620,543	$520,543	Other sales in complex.
ROSEWALK	444 San Antonio Rd. 1-D	1825	3	1988	7/1/1988	$115,000	$721,331	$606,331	Other sales in complex.
ROSEWALK	444 San Antonio Rd. 2-B	1550	2	1988	6/1/1988	$100,000	$620,543	$520,543	Other sales in complex.
ROSEWALK	444 San Antonio Rd. 4-C	1550	2	1988	3/1/1988	$100,000	$620,543	$520,543	Other sales in complex.
SAN ANTONIO VILLAGE	670 San Antonio Rd. 4	1350	3	1979	4/1/1979	$39,000	$546,210	$507,210	Other sales in complex.
SAN ANTONIO VILLAGE	670 San Antonio Rd. 5	1350	3	1979	3/10/1994	$93,700	$546,210	$452,510	Other sales in complex.
SILVERWOOD CONDOS	435 Sheridan Ave. 106	1298	2	2000	2/10/2000	$169,450	$551,650	$382,200	Other sales in complex.
SILVERWOOD CONDOS	435 Sheridan Ave. 107	1298	2	2000	4/21/2000	$169,450	$551,650	$382,200	Other sales in complex.
SILVERWOOD CONDOS	435 Sheridan Ave. 204	1505	3	2000	2/10/2000	$198,950	$640,904	$441,954	Other sales in complex.
SPANISH VILLAGE	1251 Alma St.	1340	3	1993	4/26/1993	$126,200	$585,446	$459,246	Other sales in complex.
TALISMAN DRIVE	772 Talisman Dr.	1500	3	1987	6/1/1990	$104,000	$763,465	$659,465	Avg. value of sim. units in DB.
TALISMAN DRIVE	774 Talisman Dr.	1500	3	1987	5/1/1987	$100,000	$763,465	$663,465	Avg. value of sim. units in DB.

Appendix B - Table 3
Estimated Equity of BMR Inventory
BMR Program Update
City of Palo Alto

Project Name	Address & Unit Number	Square Ft	Beds	Yr Built	Last Sale Date	Last Recorded Sales Price	Estimated Current Fair Market Value	Estimated Equity	Data Source for FMV
TERRACE BAY HOMES	3065 Middlefield Rd. 101	1100	2	1988	5/1/1988	$80,000	$488,070	$408,070	Other sales in complex.
TERRACE BAY HOMES	3069 Middlefield Rd. 101	1100	2	1988	8/1/1988	$80,000	$488,070	$408,070	Other sales in complex.
VILLA DE LAS PLAZAS	4055 Villa Vista	1100	2	1978	8/14/1997	$110,474	$431,035	$320,561	Other sales in complex.
VILLA DE LAS PLAZAS	4061 Villa Vista	1100	2	1978	6/1/1978	$40,000	$431,035	$391,035	Other sales in complex.
VILLA DE LAS PLAZAS	4075 Villa Vista	1100	2	1978	5/1/1988	$77,200	$431,035	$353,835	Other sales in complex.
VILLA DE LAS PLAZAS	4091 Villa Vista	1100	2	1978	7/1/1978	$40,000	$431,035	$391,035	Other sales in complex.
VILLA SAN ALMA	4232 Ponce Dr.	750	1	1975	4/1/1990	$63,700	$332,304	$268,604	Other sales in complex.
VILLA SAN ALMA	4238 Ponce Dr.	750	1	1975	8/1/1978	$28,900	$332,304	$303,404	Other sales in complex.
VILLA SAN ALMA	4244 Ponce Dr.	1128	2	1975	2/1/1992	$92,200	$470,771	$378,571	Other sales in complex.
VILLA SAN ALMA	4250 Ponce Dr.	1128	2	1975	5/15/2001	$101,800	$470,771	$368,971	Other sales in complex.
VILLA SAN ALMA	4256 Ponce Dr.	1128	2	1975	6/1/1979	$39,400	$470,771	$431,371	Other sales in complex.
VILLA SAN ALMA	4262 Ponce Dr.	1128	2	1975	7/1/1983	$56,500	$470,771	$414,271	Other sales in complex.
VILLA SAN ALMA	4268 Ponce Dr.	750	1	1975	6/1/1975	$23,000	$332,304	$309,304	Other sales in complex.
VILLA SAN ALMA	4272 Ponce Dr.	750	1	1975	8/30/2001	$59,900	$332,304	$272,404	Other sales in complex.
VISTA TOWNHOUSES	568 Vista Ave. 15	608	1	1979	8/1/1979	$31,000	$395,525	$364,525	Other sales in complex.
VISTA TOWNHOUSES	576 Vista Ave. 10	608	1	1979	7/1/1979	$31,000	$395,525	$364,525	Other sales in complex.
WISTERIA	4114 Wisteria Lane 12	1600	3	2000	9/15/2000	$240,000	$979,200	$739,200	Other sales in complex.

	Most Recent BMR Price	Estimated Fair Market Value	Estimated Equity
Total Value of BMR Units	**$14,422,262**	**$79,691,000**	**$65,269,000**

	Average Most Recent BMR Price	Average Estimated Fair Market Value	Average Estimated Equity
All Units	$85,339	$472,000	$386,000
One Bedroom	$58,648	$342,000	$284,000
Two Bedrooms	$88,608	$464,000	$375,000
Three Bedrooms	$105,769	$617,000	$511,000
Units Built in the 1970s	$61,522	$422,000	$361,000
Units Built in the 1980s	$85,967	$458,000	$373,000
Units Built in the 1990s	$106,032	$582,000	$476,000
Units Built in the 2000s	$196,706	$683,000	$487,000

Appendix B - Table 4a
Development Program
Low Density Townhomes
BMR Program Update
City of Palo Alto

TOWNHOMES

Density of 17 du/acre.

I. Land

Land Area	191,664	SF	4.40	Acres
Building Area	106,278	SF (sellable)		
FAR	0.55			
Density	17.3	du/acre		

II. Units

	Units		Unit SF
BMR Units			
2 BR	3	4%	1,235
3 BR	9	12%	1,449
Subtotal	12	16%	16,747
Market Rate Units			
2 BR	15	20%	1,235
3 BR	49	64%	1,449
Subtotal	64	84%	89,531
Total	76	100%	106,278

III. Parking

152 spaces. 2.00 per unit
Two car garages under units.
15% BMR Requirement

Appendix B - Table 4b
Development Costs
Low Density Townhomes
BMR Program Update
City of Palo Alto

TOWNHOMES

Density of 17 du/acre.

		PSF sellable	Per Unit	Total	% Directs
		106,278	76		
		191,664	Land SF		
I.	**Land**	$0	$0	$0	
II.	**Directs**				
	Onsite Development Costs	$16	$22,053	$1,676,000	10.5%
	Direct Construction	$108	$151,027	$11,478,024	71.9%
	Décor/Options	$19	$27,095	$2,059,213	12.9%
	Contingency	$7	$10,000	$760,000	4.8%
	Subtotal	$150	$210,174	$15,973,237	100.0%
III.	**Indirects**				
	Soft Consultants	$8	$10,509	$798,662	5.0%
	Fees & Permits	$18	$25,000	$1,900,000	11.9%
	Taxes, Legal & Accntg.	$3	$4,211	$320,000	2.0%
	Insurance	$3	$4,211	$320,000	2.0%
	Liability Insurance	$14	$20,000	$1,520,000	9.5%
	Developer's Fee	$8	$11,184	$850,000	5.3%
	Marketing	$5	$6,316	$480,000	3.0%
	BMR In-lieu Fee	$0	$0	$0	0.0%
	Contingency	$3	$4,066	$309,000	1.9%
	Subtotal	$61	$85,496	$6,497,662	40.7%
IV.	**Financing**				
	Financing	$12	$16,316	$1,240,000	7.8%
V.	**Total**	**$223**	**$311,986**	**$23,710,899**	

City-Allowed Costs for Purposes of Establishing Minimum BMR Prices

Directs	Per Unit
Direct Construction	$151,000
Contingency	$7,550
Total	*$158,550*
Indirects	
Fees & Permits	$12,500
Liability Insurance	$20,000
Contingency	$1,600
Total	*$34,100*
Financing	$8,000
Total	**$200,650**

Appendix B - Table 4c
Residual Land Value
Low Density Townhomes
BMR Program Update
City of Palo Alto

TOWNHOMES

Density of 17 du/acre.

		Units	Net SF	Sales Price/ SF		Sales Price /Unit	Gross Sales
I.	**Gross Sales Proceeds**						
	Two BR Lower Moderate	2	*1,235 sq.ft.*	$212.75	$	262,750	$525,500
	Three Bedroom Low Moderate	6	*1,449 sq.ft.*	$213.03	$	308,700	$1,852,200
	Two BR Higher Moderate	1	*1,235 sq.ft.*	$268.50	$	331,600	$331,600
	Three Bedroom Higher Moderate	3	*1,449 sq.ft.*	$267.37	$	387,450	$1,162,350
	Two Bedroom Market Rate Units	15	*1,235 sq.ft.*	$625.00	$	771,875	$11,578,125
	Three Bedroom Market Rate Units	49	*1,449 sq.ft.*	$625.00	$	905,689	$44,378,750
	Total Proceeds	76	106,278	$562.94		$787,217	$59,828,525
	(15% BMRs)	(12)					
	<Less> Commissions			3.00%	market rate		($1,678,706)
II.	**Net Sales Proceeds**			**$765,129**	**/Unit**		**$58,149,819**
	<Less> Estimated Development Costs						($23,710,899)
	<Less> Developer Profit			12.0%	Gross Sales		($7,179,423)
III.	**Residual Land Value/(Feasibility Gap)**						**$27,259,497**
					Rounded		**$27,259,000**
					Per Unit		**$359,000**
					Per sf of Land		**$142.22**

Appendix B - Table 5a
Development Program
Higher Density Condominiums
BMR Program Update
City of Palo Alto

CONDOMINIUMS

Density of 63 du/acre.

I. Land

Land Area	41,400	SF	0.95	Acres
Building Area	80,000	SF (sellable)		
GBA	95,200	SF	Efficiency:	84%
FAR	1.93			
Density	63.2	du/acre		
Parking	Subterranean			

II. Units

	Units		Unit SF
Low Income Units[1]			
1 BR	1	2%	750
2 BR	6	10%	1,250
3 BR	3	5%	1,600
Subtotal	10	17%	13,050
Market Rate Units			
1 BR	3	5%	750
2 BR	30	50%	1,250
3 BR	17	28%	1,600
Subtotal	50	83%	66,950
Total Sellable	60	100%	80,000

III. Parking

120 spaces 2.00 per unit

1. Include one density bonus unit.

Appendix B - Table 5b
Development Costs
Higher Density Condominiums
BMR Program Update
City of Palo Alto

CONDOMINIUMS

Density of 63 du/acre.

		PSF sellable	Per Unit	Total	% Directs
		80,000	60		
		41,400	Land SF		
I.	**Land**	$0	$0	$0	
II.	**Directs**				
	Sitework	$4	$5,520	$331,200	1.7%
	Subterranean Parking	$53	$70,000	$4,200,000	21.2%
	Direct Construction	$180	$239,587	$14,375,200	72.4%
	Contingency	$12	$15,833	$950,000	4.8%
	Subtotal	$248	$330,940	$19,856,400	100.0%
III.	**Indirects**				
	A&E	$15	$19,833	$1,190,000	6.0%
	Fees & Permits	$19	$25,000	$1,500,000	7.6%
	BMR In-lieu Fee	$0	$0	$0	0.0%
	Taxes, Legal & Accntg.	$5	$6,667	$400,000	2.0%
	Insurance	$5	$6,667	$400,000	2.0%
	Builder's Risk Insurance	$19	$25,000	$1,500,000	7.6%
	Developer's Fee	$13	$17,000	$1,020,000	5.1%
	Marketing	$8	$10,000	$600,000	3.0%
	Contingency	$4	$5,508	$330,500	1.7%
	Subtotal	$87	$115,675	$6,940,500	34.9%
IV.	**Financing**				
	Warranty	$11	$15,000	$900,000	4.5%
	Interest/Loan Origination Fees	$19	$25,000	$1,500,000	7.6%
	Subtotal	$30	$40,000	$2,400,000	12.1%
V.	**Total**	**$365**	**$486,615**	**$29,196,900**	

City-Allowed Costs for Purposes of Establishing Minimum BMR Prices

	Per Unit
Directs	
Parking	$50,000
Direct Construction	$193,000
Contingency	$12,150
Total	*$255,150*
Indirects	
Fees & Permits	$12,500
Liability Insurance	$25,000
Contingency	$1,900
Total	*$39,400*
Financing	$20,000
Total	**$314,550**

Appendix Table B - 5c
Residual Land Value
Higher Density Condominiums
BMR Program Update
City of Palo Alto

CONDOMINIUMS

Density of 63 du/acre.

		Units	Net SF	Sales Price/ SF	Sales Price /Unit	Gross Sales
I.	**Gross Sales Proceeds**					
	One BR Lower Moderate	1	*750 sq.ft.*	$299.33	$ 224,500	$224,500
	Two BR Lower Moderate	4	*1,250 sq.ft.*	$207.20	$ 259,000	$1,036,000
	Three BR Lower Moderate	2	*1,600 sq.ft.*	$183.38	$ 293,400	$586,800
	One Bedroom Higher Moderate	0	*750 sq.ft.*	$381.07	$ 285,800	$0
	Two BR Higher Moderate	2	*1,250 sq.ft.*	$262.24	$ 327,800	$655,600
	Three BR Higher Moderate	1	*1,600 sq.ft.*	$231.19	$ 369,900	$369,900
	One BR Market Rate Units	3	*750 sq.ft.*	$700.00	$ 525,000	$1,575,000
	Two BR Market Rate Units	30	*1,250 sq.ft.*	$625.00	$ 781,250	$23,437,500
	Three BR Market Rate Units	17	*1,600 sq.ft.*	$625.00	$ 1,000,000	$17,000,000
	Total Proceeds	60	80,000	$561.07	$748,088	$44,885,300
	<Less> Commissions			3.00%	market rate	($1,260,375)
II.	**Net Sales Proceeds**			**$727,082**	**/Unit**	**$43,624,925**
	<Less> Estimated Development Costs (Before Land)					($29,196,900)
	<Less> Developer Profit			15.0%	Gross Sales	($6,732,795)
III.	**Residual Land Value/(Feasibility Gap)**					**$7,695,230**
					Rounded	**$7,695,000**
					Per Unit	**$128,250**
					Per sf of Land	**$185.87**

APPENDIX C

Homeowners Survey

City of Palo Alto
Below Market Rate Housing Program

Survey of Homeowners: Summary
February 2006

Description of Process

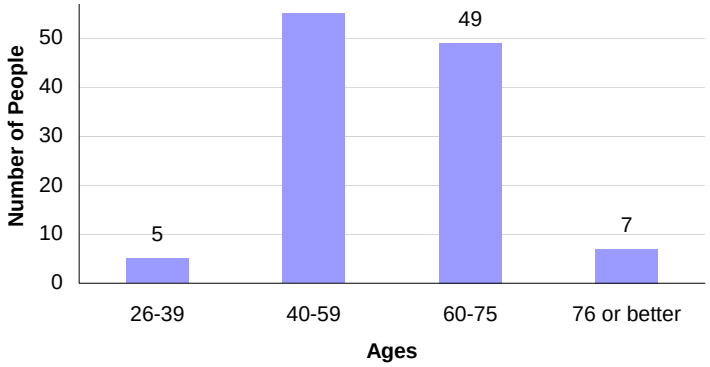
The Homeowner Survey is a key part of a comprehensive review of the Below Market Rate (BMR) Program. The survey was designed by the Department of Planning and Community Environment to provide insight into how well the BMR Program currently meets the needs of moderate-income families and ways in which the Program may be revised and updated. The City also hired a consulting firm (Keyser Marston Associates, Inc. working in conjunction with Anderson and Associates) to review economic and legal aspects of the program and offer recommendations for improving administrative efficiency and program effectiveness.

The survey was conducted between December 2004 and February 2005. At that time, there were 169 BMR ownership units. In total, 124 surveys were received, for a response rate of 73%. The detailed analysis of the survey is available in the document "Survey of Homeowners: Analysis of Responses." This summary encapsulates the overall results of the survey.

Household Composition

The survey revealed that almost half of the respondents are age 60 or over. Seven of the respondents reported that they are 76 years or older. Additionally, there are very few young people living in BMR units. Only five children under age six live in BMR units, however, there is a fairly large group of teenagers (22 people) and young adults (27 people).

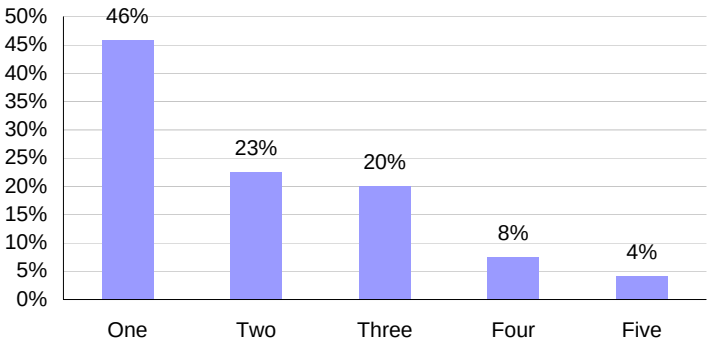
Figure 1: Age of Owners



Household Size

Results indicate that there are a large number of households with only one person in BMR units. The survey was intended to investigate whether owners with small households are living in units with multiple bedrooms while large households wait on the waiting list for opportunities to buy.

Figure 2: Persons Per Household



To investigate this potential problem, the number of bedrooms in units occupied by one-person households was considered. Fifty (50) respondents live in one-person households. Of those, 19 people have two or three bedrooms in their home. This data reveals that 19 households are occupying bigger units than they would qualify for if they applied to the program with their current household composition.

Table 1: Number of Bedrooms in Homes with One Occupant

Number of Bedrooms	Number of Respondents
0/Studio	1
1	30
2	17
3	2

Physical Disability

Coupled with the older age of many of the owners is the issue of physical disability. Fifteen (15) percent of owners reported that a member of their household has a physical disability. Two owners reported that they would be selling their units because they live on upper floors in buildings without elevators.

The inventory of BMR units was used to estimate the number of inaccessible units for persons with disabilities and limited mobility. Fifty-eight (58) of the 169 units are two or three stories, mostly townhouses and duplexes. Additionally, there are 47 one-story units that must be accessed by going up at least a few stairs. In total, 105 units (62% of all BMR units) are not accessible for people with disabilities that limit their ability to climb stairs.

Homeowner Circumstances at the Time of Purchase

The BMR Program has been successful in serving people that live and work in the City. At the time they purchased their homes, 59% of respondents both lived and worked in Palo Alto. Seven (7) households reported living in Palo Alto and working in nearby cities. Five (5) households reported living in other communities and working in Palo Alto.

Respondents were also asked what housing choice they would have made if the BMR Program had not been available at the time they purchased. Fifty-four (54) owners would have stayed in Palo Alto and lived in a rental home. Forty-one (41) respondents would have moved out of Palo Alto. Several people reported that they would have lived with family, and one respondent reported that they would have lived in their car.

Income and Employment

The respondents were asked in an optional question to report their household income and family size. This data reveals that a significantly large number of BMR owners fall into the lower income categories as established by HUD income limits (see Table 2). Eighty-four (84) households reported an income and family size that translate to low income (51-80% of median), very low income (31-50% of median), or extremely low income (0-30% of median). Notably, 24 households are extremely low income, with household incomes of less than $34,000 per year.

Only 13 households reported having an income and family size that corresponds to the moderate income (80-120% of median) category. This number is significant because the Program has historically targeted moderate-income households. The incomes of the owners have not kept pace with the increases area-wide, resulting in the BMR owners falling into lower income categories over time.

Table 2: Household Income

Income	Number of People in the Household					
	1	**2**	**3**	**4**	**5**	**Total**
Under $22,000	15	4	2	1	0	22
$22,001 to $25,000	3	1	0	1	0	5
$25,001 to $28,000	5	2	0	0	0	7
$28,001 to $32,000	3	0	0	0	0	3
$32,001 to $34,000	2	0	0	0	0	2
$34,001 to $37,000	2	0	1	0	0	3
$37,001 to $42,000	4	1	2	1	1	9
$42,001 to $47,000	4	1	4	0	0	9
$47,001 to $53,000	2	3	3	2	0	10
$53,001 to $57,000	1	0	0	1	0	2
$57,001 to $59,000	0	1	1	1	0	3
$59,001 to $65,000	0	1	2	1	0	4
$65,001 to $68,000	0	0	1	1	1	3
$68,001 to $70,000	0	3	0	0	0	3
$70,001 to $76,000	3	0	1	0	1	5
$76,001 to $85,000	0	1	0	0	0	1
$85,001 to $91,000	1	0	0	0	0	1
$91,001 to $98,000	0	1	0	0	0	1
$98,001 to $105,000	0	0	0	0	0	0
$105,001 to $112,000	1	0	1	0	0	2
More than $112,001	0	0	2	0	0	2
Total	46	19	20	9	3	97

Extremely Low	24	Households
Very Low	29	Households
Low	31	Households
Moderate (or higher)	13	Households
Total	97	Households

Understanding of BMR Program Requirements

The survey revealed a range of understanding of the Program requirements. The resale price, method for appreciation calculation, and adjustments for improvements are understood by about half of the respondents. Rules for refinancing are least understood, with 30% of owners reporting that they "Don't know at all" what the rules are. The program policy requiring owner-occupation and prohibiting rental of the unit are the most well understood aspects of the Program.

Overall, 70% of owners reported understanding the rights and responsibilities of BMR ownership "fairly well" or "for sure" when they bought their unit. The other responses in this section indicate that their knowledge erodes somewhat over the time they own their homes, reinforcing the desirability for ongoing contact with BMR owners.

Satisfaction with BMR Program

BMR owners reported a generally high level of satisfaction with the Program. Respondents were most satisfied with the original purchase price, with 89% being either "Satisfied" or "Very Satisfied." Respondents also expressed a high level of satisfaction with their unit (83%) and complex (77%).

Improvements to BMR Units

To assess the general condition of the BMR housing stock, the owners were asked to report on the age of appliances and amenities in their homes. As expected because of its useful life and relatively low cost, paint is the most common upgrade to BMR homes, with 64% of owners reporting that they have painted within the last five (5) years. Other relatively new elements include water heaters, microwaves, and garbage disposals. Flooring/carpeting has a longer useful life, as reflected by 63% of owners having replaced it within the last ten (10) years. The oldest aspects of BMR homes include windows, bathroom cabinets, heating systems, and bathtubs.

Table 3: Age of Appliances and Amenities

	Up to 5 Years	6-10 years	11-15 years	16-20 years	21 Years or more
Paint	64%	13%	16%	6%	1%
Water Heater	55%	16%	18%	7%	5%
Microwave	53%	27%	11%	5%	4%
Garbage Disposal	50%	20%	13%	12%	5%
Washer/dryer	48%	25%	14%	13%	5%
Flooring/Carpeting	42%	21%	14%	16%	7%
Dishwasher	41%	18%	13%	20%	9%
Refrigerator	40%	22%	18%	17%	3%
Range	30%	12%	18%	22%	18%
Toilet	27%	12%	17%	23%	21%
Bath fixtures	22%	16%	19%	21%	22%
Kitchen cab & fix	20%	8%	21%	24%	27%
Windows	19%	9%	21%	26%	25%
Bath cabinets	17%	15%	20%	25%	23%
Heating system	12%	5%	21%	31%	31%
Bathtub	12%	10%	20%	29%	29%

Owners also responded with reasons why they have not made improvements to their homes. Several owners indicated that they purchased their homes new and have not had any need or desire to make changes. Thirty-one (31) owners reported that they could not afford to make improvements.

Homeowners Association Dues and Special Assessments

In the past, BMR homeowners have expressed concern that homeowners' association (HOA) monthly dues and special assessments threaten their financial security and reduce ongoing affordability of BMR units. To explore this issue, owners were asked a series of questions about their financial situation.

Many owners also provided comments about this issue. For example:

- *The unit I live in is no longer affordable housing due to substantial increases in homeowners fees. If I could move I wouldn't hesitate to do so but as a disabled, low income resident I am in no position to do that.*

Most owners reported that their monthly dues have gone up more than they expected. Thirty-one (31) percent find it "Always" or "Often" hard to pay their regular monthly dues. Thirty-one (31) percent of owners have also had trouble paying special assessments.

Mortgage Information

The majority (74%) of owners reported that they have a fixed-rate mortgage on their home. Twenty-five (25) percent of owners have adjustable rate mortgages, and only one owner reported having an interest only loan. The current interest rate on home loans was also supplied by a number of owners (see Table 4). Additionally, the balance due on all home loans was provided by many respondents (see Table 5).

Table 4: Interest Rates

Interest Rate	Number of Respondents
Less than 4%	1
4 - 4.9%	5
5 – 5.9%	3
6 – 6.9%	9
7 – 7.9%	8
8 – 8.9 %	1
9 – 9.9%	2
10 – 10.9%	1

Refinancing

The respondents were split on the issue of refinancing; 50% have refinanced their original loan, and 50% have not. The owners that have refinanced were asked how many times and in what years. Six (6) owners reported that they have refinanced three times or more. Fifteen (15) owners reported refinancing two times. Thirty-two (32) owners have refinanced one time.

Sixteen (16) homeowners reported that they have an equity line of credit loan on their home. Twelve (12) of them also included the amounts, which range from $6,000 - $125,000.

Table 5: Total Balance Due on All Home Loans

Total Balance on all Loans	Number of Respondents
0	24
Up to 25,000	4
25,001 to 50,000	17
50,001 to 75,000	14
75,001 to 100,000	12
100,001 to 125,000	7
125,001 to 150,000	2
150,001 to 175,000	2
175,001 to 200,000	1
200,001 to 225,000	1

Comments on the BMR Program

Over 60 owners included comments about aspects of the Program they have been especially happy with. There were several common themes among the comments: access to quality schools and employment; Program staff; and satisfaction with their homes. Highlights of these comments include:

- *As prices rose I probably would have had to leave Palo Alto. My children were 15 and 16 when I moved in. They were so proud of the unit. They both regarded the unit as a symbol of security and proud ownership. Their spirits soared when we moved in.*
- *Owning my home has given me stability and the opportunity to continue to live and work in Palo Alto. BMR ownership has given me and my children a wonderful quality of life and secured our futures. My children are successful professionals and I have enjoyed the privilege of living and working in Palo Alto. I was able to educate my children and I am able to spoil my grandchildren.*
- *This program has been and is the greatest gift in my life. I am so grateful for the security and pride of ownership. I was a single parent (my husband was mentally ill). I'm not sure I would have managed without the help. Both of my children graduated from college. I am their rock, this unit is mine.*
- *This was a lifesaver for my family - my husband died age 44, 4 years after we moved in. There would be no way I could have stayed here to keep my job and offer stability for my 2 children's schools, home and friends.*
- *My income was greatly reduced while I was out from work for almost two years while being treated for breast cancer. Times were very hard financially. Had we not had affordable housing at that time, we very likely would have been unhoused.*

Nearly 70 owners also included comments about things they would recommend changing. Common themes include: resale price and appreciation; the amenities of the home and complex; ongoing affordability; ongoing contact with program staff; the purchase process; and transfer options. Illustrative comments:

- *In most homeowner situations, the home appreciates when upgrades are done and the home is maintained properly. With the BMR program there is no motivation to improve or maintain home due to the formula for establishing the selling price. The formula carries heavy depreciation penalties and minimal appreciation.*
- *I am trapped in this system. I can't afford to sell, because with the CPI rate of return, I can't go anywhere in the US and purchase a home.*
- *The issue of Trust vs. Will for transferring to the children is not well explained or understood by me. Why is it the way it is?*
- *Perhaps elderly people should be allowed to take a lodger for company or help.*
- *I wish the program could be used as a stepping-stone for getting into market priced homes. This would benefit the program by having greater turn over of units as well as helping owners get into market priced homes. The formula for establishing selling price needs to be reviewed.*
- *There was apparently no "city inspection" of my unit when I bought it. I think a little oversight or help before selling a unit might help. Also, there should be guidelines in preparing your home for sale prior to being able to market it.*

City of Palo Alto
Below Market Rate Housing Program

Survey of Homeowners: Analysis of Responses

Conducted by the Department of Planning and Community Environment in conjunction with Palo Alto Housing Corporation

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1. Description of Survey Process

The Homeowner Survey is a key part of a comprehensive review of the Below Market Rate (BMR) Program. The survey was designed to provide insight into how well the BMR Program currently meets the needs of moderate-income families and ways in which the BMR Program may be revised and updated. The City also hired a consulting firm (Keyser Marston Associates, Inc. working in conjunction with Anderson Associates) to review economic and legal aspects of the program and offer recommendations for improving administrative efficiency and program effectiveness. The Homeowner Survey was created by the Department of Planning and Community Environment with input from the Palo Alto Housing Corporation, Keyser Marston Associates, Inc., and Anderson and Associates.

The survey was conducted between December 2004 and February 2005. At that time, there were 169 BMR ownership units. This number included homes at Birch Court that had traditionally been referred to as Discount Units (see Appendix A: Inventory of Below Market Rate Units). On December 1, 2004 the first mailing was conducted. All BMR households received a cover letter, 8-page questionnaire, instruction sheet, and response postcard (see Appendix B). Each respondent was asked to return the survey in the postage paid envelope and a response postcard separately. Alternatively, the homeowners had the option of completing the survey online. Using this system, City staff could identify that homeowners had responded, but not which response was theirs.

From the first mailing, 82 responses were received by mail and 6 surveys were completed online. The second mailing was sent on January 26, 2005 with an updated cover letter and the other materials identical to the first mailing. In response to the second mailing, 36 more surveys were received.

In total, 124 surveys were received, for a response rate of 73%. Although this is a very high response rate, there were 45 households that did not complete the survey. Therefore, it is important to note that the results presented here describe the respondents only. Since the survey was anonymous, there is no basis to assume that the results describe all BMR owners. Respondents were allowed to skip questions, so the total response rate for each question varies. The analysis in this document reflects the number of responses for each question, not the overall response rate. Additionally, several questions about income and employment were designated on the survey form as optional because of their personal nature. These questions had a slightly lower response rate. All of the data from the paper surveys were entered using Survey Monkey, a provider of online survey services.

This document includes the analysis of the owner survey. The complete data with all comments is available in the technical document “Survey of Homeowners: Compilation of all Responses.”

2. Homeowner Demographics

Household Composition

The survey revealed that almost half of the respondents are age 60 or over. Seven of the respondents reported that they are 76 years or older. Additionally, there are very few young people living in BMR units. Only five children under age six live in BMR units, however, there is a fairly large group of teenagers (22 people) and young adults (27 people).

Figure 1: Age of Owners

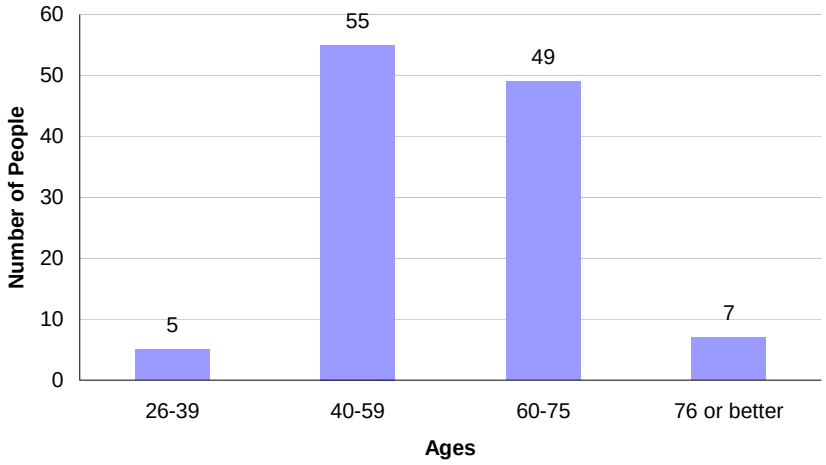


Figure 2: Young People Living In BMR Units

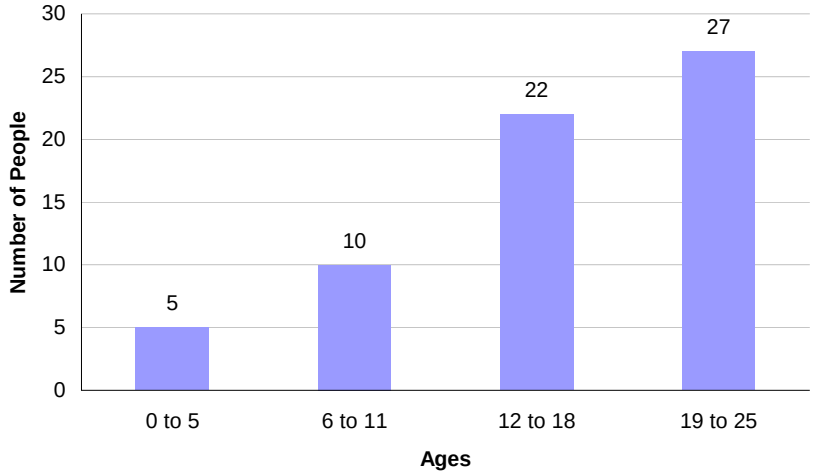
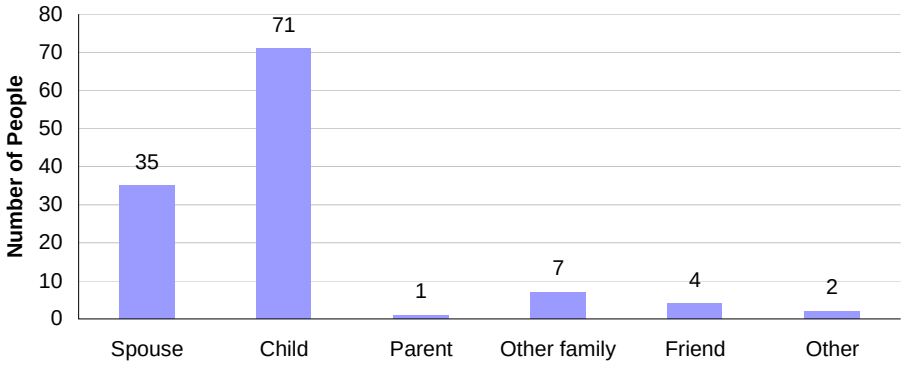


Figure 3: Relationship of Occupants to Owner



The vast majority of occupants are related to the owner. Children and spouses make up the two largest categories.

Table 1: Marital Status[1]

	Response Total	Percent
Married	31	39%
Separated	0	0%
Unmarried / Single	17	22%
Divorced	26	33%
Widowed	5	6%

Household Size

Results indicate that there are a large number of households with only one person in BMR units. One of the issues that the survey was intended to determine was if owners with small households are living in units with multiple bedrooms while large households wait on the waiting list for opportunities to buy. Several of the survey respondents indicated that they would like to move into larger units. For example:

> *It would be nice if I could give up my unit and get a larger one since my family size changed. But I'm just in line with everyone else on the list – no advantages.*

To investigate this potential problem, the number of bedrooms in units occupied by one-person households was considered. Fifty (50) respondents live in one-person households. Of those, 19

[1] Optional question with lower response rate.

people have two or three bedrooms in their home. This data reveals that 19 households are occupying bigger units than they would qualify for if they applied to the program with their current household composition.

Figure 4: Persons Per Household

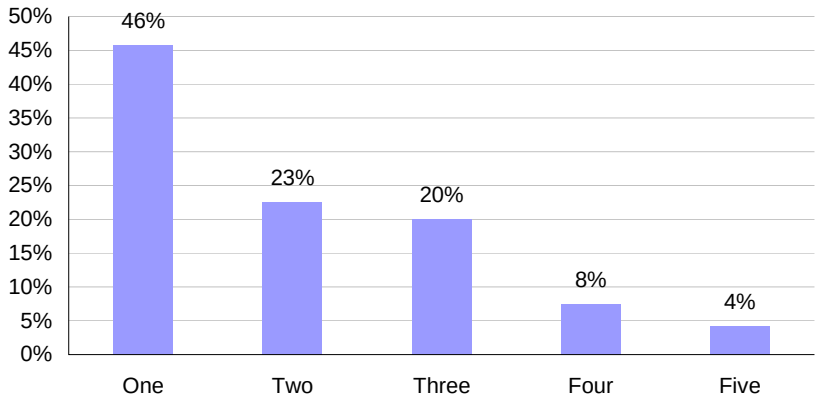


Table 2: Number of Bedrooms in Homes with One Occupant

Number of Bedrooms	Number of Respondents
0/Studio	1
1	30
2	17
3	2

Physical Disability

Coupled with the older age of many of the owners is the issue of physical disability and general mobility of an aging population. Fifteen percent of owners reported that a member of their household has a physical disability. Two owners reported that they would be selling their units because they live on upper floors in buildings without elevators. Additionally, several owners made comments about their mobility, including:

> *It would be very helpful if people who can no longer live in their unit due to disability could "transfer" to a more accessible unit when needed. It would take a great fear off my mind if I knew that I would have place to live in the future.*
>
> *As we get older, we find living in a 2-story home is more and more difficult, and there will be a time when we will not be able to stay here because of disability. At that time, we will be stuck. We won't*

have the investment to afford a new place on a fixed income, nor will there be anything at the same price as this one that we could have a property tax exemption. It frightens me to think of the future.

The inventory of BMR units was used to estimate the number of inaccessible units for persons with disabilities and limited mobility. Fifty-eight (58) of the 169 units are two or three stories, mostly townhouses and duplexes. Additionally, there are 47 one-story units that must be accessed by going up at least a few stairs. In total, 105 units (62% of all BMR units) are not accessible for people with disabilities that limit their ability to climb stairs.

Income and Employment[2]

The respondents were asked in an optional question to report their household income and family size. This data reveals that a significantly large number of BMR owners fall into the lower income categories as established by HUD income limits. Eighty-four households reported an income and family size that translate to low income (51-80% of median), very low income (31-50% of median), or extremely low income (0-30% of median). Notably, 24 households are extremely low income, with household incomes of less than $34,000 per year.

Only 13 households reported having an income and family size that corresponds to the moderate income (80-120% of median) category. This number is significant because the Program has historically targeted moderate-income households. The incomes of the owners have not kept pace with the increases area-wide, resulting in the BMR owners falling into lower income categories over time.

[2] Optional questions with lower response rates.

Table 3: Household Income

Income	Number of People in the Household					
	1	**2**	**3**	**4**	**5**	**Total**
Under $22,000	15	4	2	1	0	22
$22,001 to $25,000	3	1	0	1	0	5
$25,001 to $28,000	5	2	0	0	0	7
$28,001 to $32,000	3	0	0	0	0	3
$32,001 to $34,000	2	0	0	0	0	2
$34,001 to $37,000	2	0	1	0	0	3
$37,001 to $42,000	4	1	2	1	1	9
$42,001 to $47,000	4	1	4	0	0	9
$47,001 to $53,000	2	3	3	2	0	10
$53,001 to $57,000	1	0	0	1	0	2
$57,001 to $59,000	0	1	1	1	0	3
$59,001 to $65,000	0	1	2	1	0	4
$65,001 to $68,000	0	0	1	1	1	3
$68,001 to $70,000	0	3	0	0	0	3
$70,001 to $76,000	3	0	1	0	1	5
$76,001 to $85,000	0	1	0	0	0	1
$85,001 to $91,000	1	0	0	0	0	1
$91,001 to $98,000	0	1	0	0	0	1
$98,001 to $105,000	0	0	0	0	0	0
$105,001 to $112,000	1	0	1	0	0	2
More than $112,001	0	0	2	0	0	2
Total	46	19	20	9	3	97

Extremely Low	24	Households
Very Low	29	Households
Low	31	Households
Moderate (or higher)	13	Households
Total	97	Households

Household Income Sources

BMR homeowners reported receiving most of their income from employment wages. As expected due to the age of many owners, numerous people (37%) receive retirement income from pensions, social security or annuities.

Table 4:Income Sources

	Response Total	Percent*
Salary or Hourly wage	68	68%
Commission	1	1%
Self employed	9	9%
Pension, Social Security or Annuities	37	37%
Permanent Disability	6	6%
Unemployment or Temporary Disability	3	3%
Family	3	3%
Child support or Alimony	4	4%
Other (please specify)	1	1%

* Does not add up to 100% because respondents were allowed to mark more than one source

Table 5: Employment Status

	Response Total	Percent
Employed full-time	51	58%
Employed part-time	6	7%
Self-Employed	3	3%
Retired	20	23%
Disabled not working	4	5%
Unemployed	2	2%
Student/Other status	1	1%
Employed with more than one job	1	1%

3. Homeowner Circumstances at the Time of Purchase

The BMR Program has been successful in serving people that live and work in the City. At the time they purchased their homes, 59% of respondents both lived and worked in Palo Alto. Seven households reported living in Palo Alto and working in nearby cities. Five households reported living in other communities and working in Palo Alto.

Respondents were also asked what housing choice they would have made if the BMR Program had not been available at the time they purchased. Many owners would have stayed in Palo Alto and lived in a rental home.

Table 6: Housing Choice Without Program

	Number	Percent
Stayed in Palo Alto and lived in a rental home	54	45%
Other (details below)	25	21%
Moved out of Palo Alto and lived in a rental home in another city	24	20%
Moved out of Palo Alto and bought a regular (market priced) home in another city	15	13%
Stayed in Palo Alto and bought a regular (market priced) home	1	1%

The owners' comments illustrate the financial hardship many BMR homeowners face. If the Program had not been available, they would have:

- Moved out of Palo Alto and lived in a rental home or filed bankruptcy
- Moved into Section 8 rental
- Live with parents
- Stayed with family
- Lived in apt outside of area
- Move out of CA
- [Lived in] my car
- Parents

4. Understanding of BMR Program Requirements

The survey revealed a range of understanding of the Program requirements. The resale price, method for appreciation calculation, and adjustments for improvements are understood by about half of the respondents. Rules for refinancing are least understood, with 30% of owners reporting that they "Don't know at all" what the rules are. The program policy requiring owner-occupation and prohibiting rental of the unit are the most well understood aspects of the Program.

Figure 5: Knowledge of the Current Resale Value

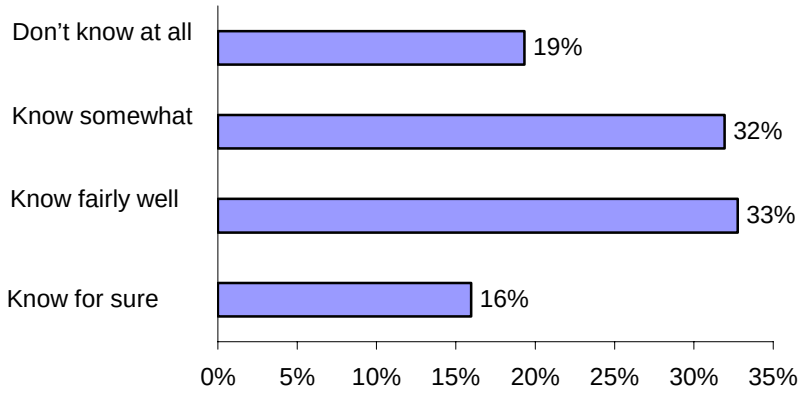


Figure 6: Understanding of How the Resale Price is Calculated

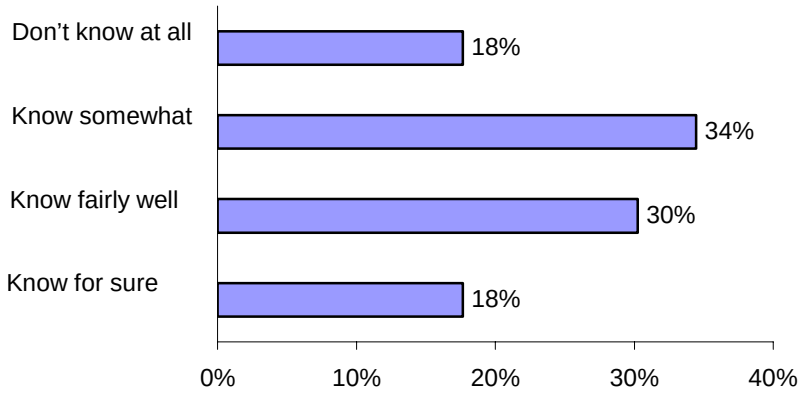


Figure 7: Knowledge of How the Future Sales Price Will be Adjusted for Improvements

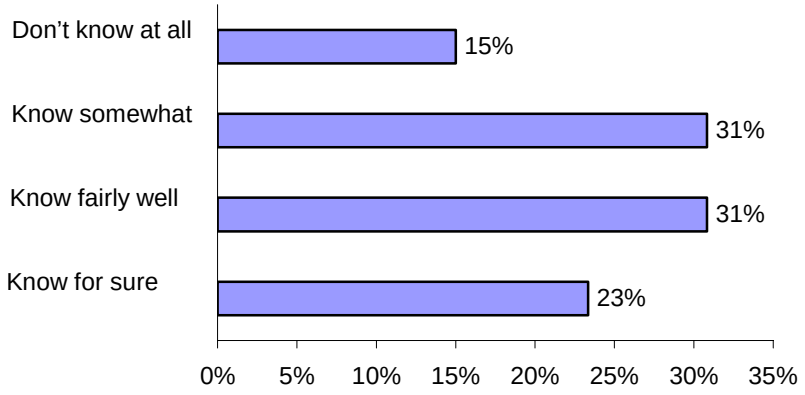


Figure 8: Knowledge of Process to Refinance

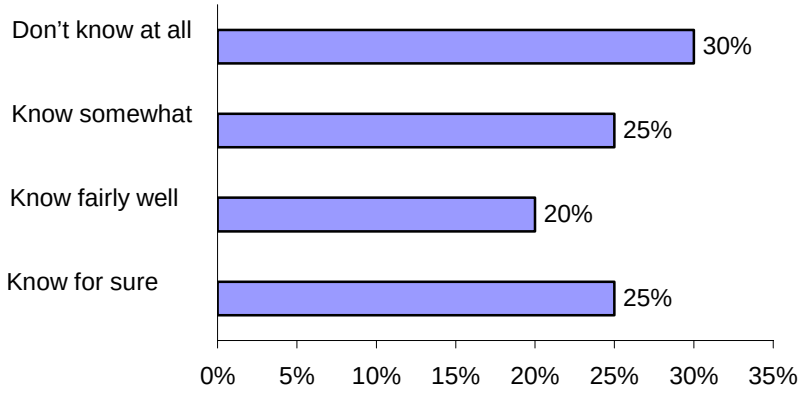
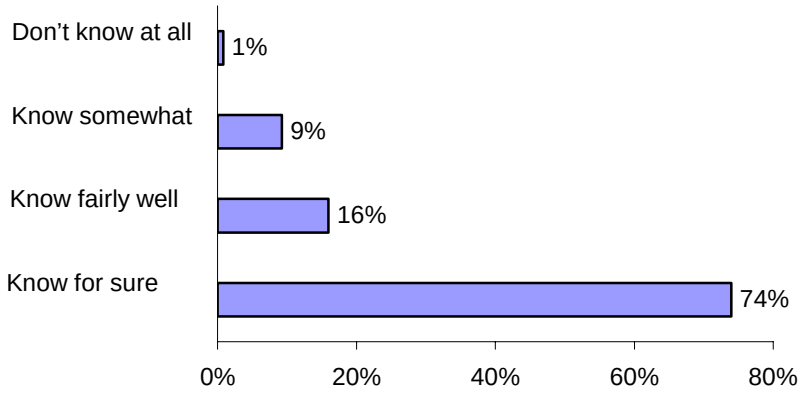
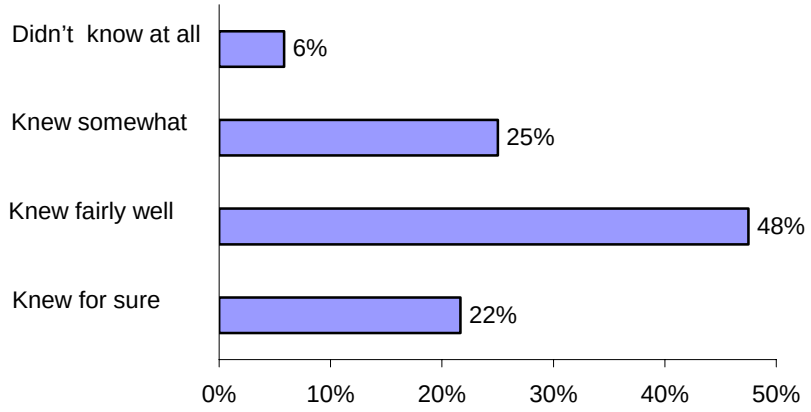


Figure 9: Understanding of Owner-occupation and Rental Rules



Overall, 70% of owners reported understanding the rights and responsibilities of BMR ownership "fairly well" or "for sure" when they bought their unit. The other responses in this section indicate that their knowledge erodes somewhat over the time they own their homes, reinforcing the need for ongoing contact with BMR owners.

Figure 10: Understanding of the Rights and Responsibilities of Owning a BMR Home at *the Time of Purchase*



Owners also provided comments about how well they understand the Program:

- *Would like an update in writing.*
- *I can always call the BMR Program with questions and clarification.*
- *I didn't know about refinancing*
- *Can you refinance?*
- *Still not sure about calculations for improvements.*
- *I have been in my unit for 25 years and the rules and restrictions have changed over time.*
- *PA Housing Corp. made sure we understood all the conditions of the program.*
- *I went to a BMR seminar several months ago and learned a lot about my unit. Overall, the session was very helpful.*
- *I do not have intention to sell the unit hence I did not pay much attention to this part of ownership*
- *No one sat down with me to go over the fine details of the rules and restrictions. I learned the information as needed (like refinancing).*
- *The process of purchasing was very high-stressed, and time constricted. I had to have secured funding within 48 hours of being notified by the Housing Corp., and they didn't spend much time with me explaining the CC&R's, By-Laws, etc. of the condo Association, as well as the BMR programs list of do's and don'ts. I was very lost.*

5. Satisfaction with BMR Program

BMR owners reported a generally high level of satisfaction with the Program. Respondents were most satisfied with the original purchase price, with 89% being either "Satisfied" or "Very Satisfied." Respondents also expressed a high level of satisfaction with their unit and complex.

Figure 11: Satisfaction with the Original Purchase Price

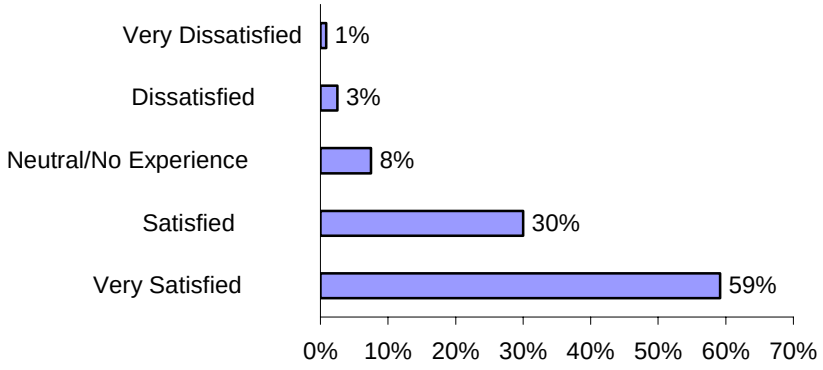


Figure 12: Satisfaction with the Unit Itself

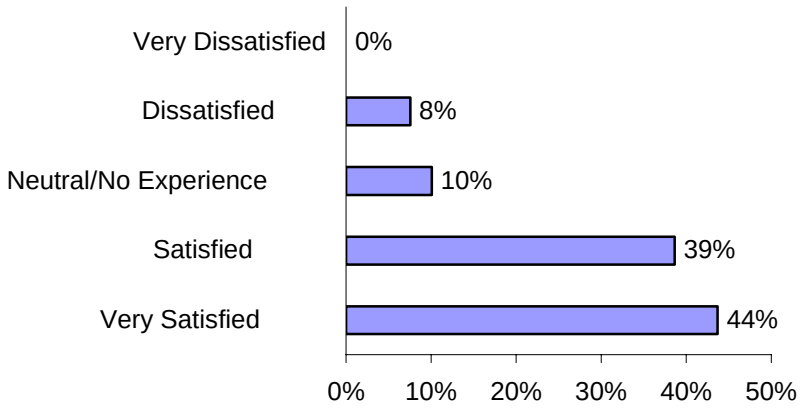
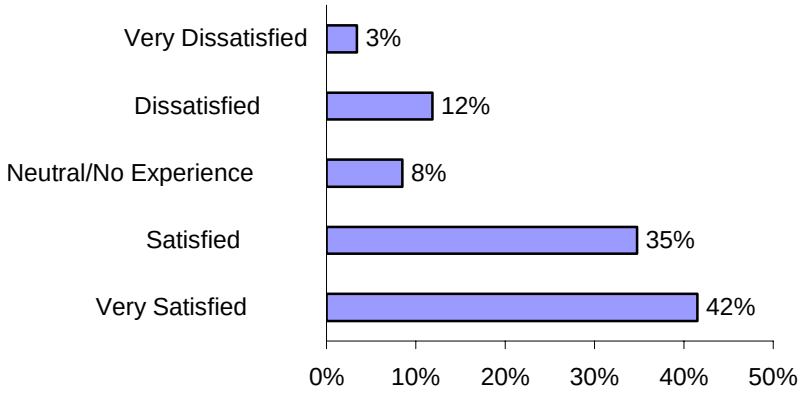
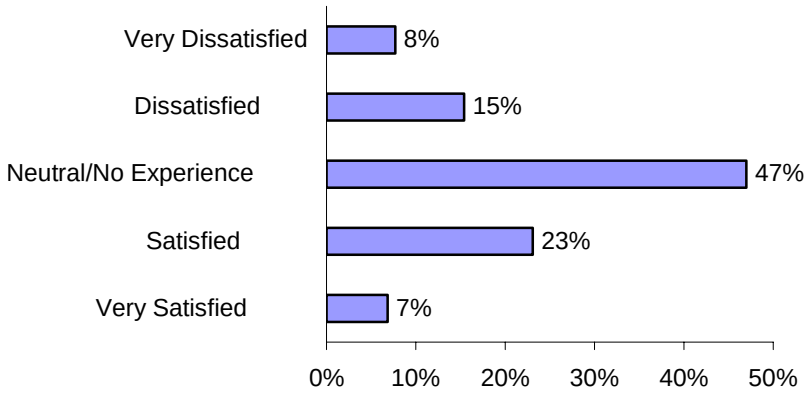


Figure 13: Satisfaction with the Complex or Neighborhood



In regards to the appreciation formula, the greatest number of respondents reported that they are ambivalent neural, or have no experience. This is not surprising, since the current owners may not have gone through the original sales process. However, it also represents the apparent lack of understanding of how the resale price is calculated. This question generated the only significant block of owners reporting dissatisfaction, with 23% either “Dissatisfied” or “Very Dissatisfied.”

Figure 14: Satisfaction with the Appreciation Formula and Resale Price



Comments

Over 60 owners included comments about aspects of the Program they have been especially happy with. Highlights of these comments are organized by common theme:

Existence of the Program:

- *I'm happy it exists and I've been in a great place.*
- *We feel extremely blessed to be where we are.*
- *As prices rose I probably would have had to leave Palo Alto. My children were 15 and 16 when I moved in. They were so proud of the unit. They both regarded the unit as a symbol of security and proud ownership. Their spirits soared when we moved in.*
- *A wonderful opportunity for my family. We waited a long time and appreciate our home every day.*
- *Affordability and security of having a roof over one's head and not being afraid to become homeless. Affordable housing is a human right, not a vehicle of speculation and huge profits for the rich.*
- *It saved my life - being an older single woman and limited funds - my future was bleak when prices and rents skyrocketed.*
- *Owning my home has given me stability and the opportunity to continue to live and work in Palo Alto. BMR ownership has given me and my children a wonderful quality of life and secured our futures. My children are successful professionals and I have enjoyed the privilege of living and working in Palo Alto. I was able to educate my children and I am able to spoil my grandchildren. My children are confident that I am also well prepared for my future. Thank you for this wonderful program.*

Access to high quality schools and work:

- *The program gave me the opportunity to buy a home and keep my kids in Palo Alto school district.*

- *Owning a home near where I work.*
- *This doubtless is the only way I could continue to live in Palo Alto and thus be near my work (with a low-salary non-profit) and my friends.*
- *It has been a terrific opportunity for our family to have affordable housing in the community where my wife teaches*

Program staff:

- *The staff at the BMR office was extremely helpful.*
- *BMR program employees have consistently been helpful, responsive, and a pleasure to work with.*
- *-The support and guidance given by your staff while we panicked just before the final sale. -The reduction of "red tape" required to purchase a home. -Simply the fact that it exists in this inflation crazed age. Owning is Palo Alto is a dream for us, which you made come true. Thank you!*
- *Received immediate help/information that I needed for a divorce. That meant a great deal when I was going through a very stressful time.*

Satisfaction with the home and/or area:

- *The fact that the units are built the same as the rest of the complex so unless you tell your neighbors no one knows which are the BMR units.*
- *I really love my little duplex. In general I'm very satisfied and grateful to have this place.*
- *If not for this program, it would be impossible for me to pay the rent in order to live in this neighborhood.*
- *The complex is wheelchair accessible throughout the entire grounds.*
- *A humane way to have a roof over our heads, in a "normal" neighborhood.*

Nearly 70 owners also included comments about things they would recommend changing. Highlights of these comments are also organized by common theme:

Resale price and appreciation:

- *I would recommend changing the method for calculating the resale price and appreciation. The purchase price for my BMR was 1/2 that of the market price at the time I purchased - I bought for $33 K, market price for my condo was $66 K. However, my BMR is only worth 1/5 of the market price for my condo - $110 vs. $550 K today. This is extremely inequitable considering the regular mortgage payments I have been making since purchase as well as the homeowners dues and assessments, which have never been reduced or below market rate. At this exchange, I could never afford to sell and purchase another home of any type in this area or neighboring ones.*
- *In most homeowner situations, the home appreciates when upgrades are done and the home is maintained properly. With the BMR program there is no motivation to improve or maintain home due to the formula for establishing the selling price.. The formula carries heavy depreciation penalties and minimal appreciation.*
- *Allow more appreciation in line with the cost of the mortgage, i.e. to recover the money paid in interest*
- *The relationship between the CPI and the property is wrong and handicaps the owners. There is no incentive to improve property, and little encouragement to do so. Staff doesn't seem to understand the issue.*

- *I am trapped in this system. I can't afford to sell, because with the CPI rate of return, I can't go anywhere in the US and purchase a home. I pay the SAME amount for my share of the [complex] repair, as does the largest unit. My unit is 535 sq.ft., the largest unit is 1800-2000sq.ft.. And, I don't have the same equity increase as the open market units (the larger units), so my ability to re-finance and recover the cost of the repair upon selling is jeopardized. Also, I pay the same amount of monthly dues as the smallest open-market units, which are larger by 150sq.ft. This means my monthly dues already don't reflect my true pro-rata share, and then to escalate this discrepancy by having the BMR units share equal costs in major repairs is criminal.*

Satisfaction with the home and/or area:

- *I'm not happy with all of our neighbors treating us like we are low income, our place was given the cheapest cabinets, doors, no electrical and still not up to code due to us being a BMR.*
- *My unit was built for a wheelchair user. But the floors and both front and back porches are not level. If I let go of my wheels and don't lock them, I roll to the other side of the room.*

Ongoing affordability:

- *Perhaps elderly people should be allowed to take a lodger for company or help.*
- *To be more aware of association fees and their potential to increase a lot.*
- *When home-owners' dues increase, I wish that BMR owners would get a discount*
- *On special assessments - have the BMR costs figured on square footage, not per unit.*
- *Homeowner association dues should be based on amount of resale value of the unit vs. fees based on size and present value of said unit.*

Ongoing contact with Program staff and additional information:

- *Remind homeowners who work on their own units to pay themselves so that they are rewarded for their sweat equity when they sell their unit.*
- *Annual newsletter from program with contact phone numbers.*
- *Be more clear regarding your policies.*
- *Would like to have some updated information on the rules and how the unit can be left to family members or others? If for health reasons a move is needed, how is this handled?*
- *Upon request or yearly calculate the value (current) for homeowners. Or put the calculation information on the website.*
- *Publish annually the waiting list (just the numbers) and update the people on the waiting list so they can make intelligent decisions about either to stay on the waiting list, or try to buy a market value property or move out of the area*

Purchase process:

- *One aspect was how rushed I was through the process of buying - since there was no realtor and I never owned -- all I really knew was what PA Housing Corp staff told me.*
- *-Either City should inspect all the aspects they list in Exhibit B or clearly communicate that buyers are at risk if they do not hire a home inspector -With the price set, there's no incentive for sellers to make repairs or clean; the buyer can lose the loan if money left in escrow (per my experience) -Should value be depreciated if buying a home with old appliances on the verge of breakdown?*

- *I think PAHC should go over CC&Rs and Bylaws with new buyers and explain what they are and what they mean to the buyer.*
- *More advice and time given for financing. We were rushed through the process, which in turn did not allow us to shop for better deal.*
- *I would educate the buyer re how value is assessed for property tax purposes. I didn't find out until year 12 that the assessor did not know that it was a BMR unit and had been assessing it higher than its BMR value.*
- *There was apparently no "city inspection" of my unit when I bought it. All the electrical appliances have to be replaced, the toilet, a huge special assessment the first year (because the Home Owners Association did not have enough reserve funds). I think a little oversight or help before selling a unit might help. Also, there should be guidelines in preparing your home for sale prior to being able to market it.*
- *When I moved in 1979, the Market Rate homeowners treated the BMR homeowners with disdain. They believed that we were low-income residents and that they had to take care of us at their expense. It has taken many years of my perseverance to convince them otherwise. It would have been better to not have made our area separate from the rest of the development and certainly not so different looking.. Therefore, my recommendation is to blend the BMR units into the area(s) where they are built and to educate the non-BMR homeowners so that they understand the reason for BMR ownership - that a human being's life circumstances has nothing to do with quality of the person.*

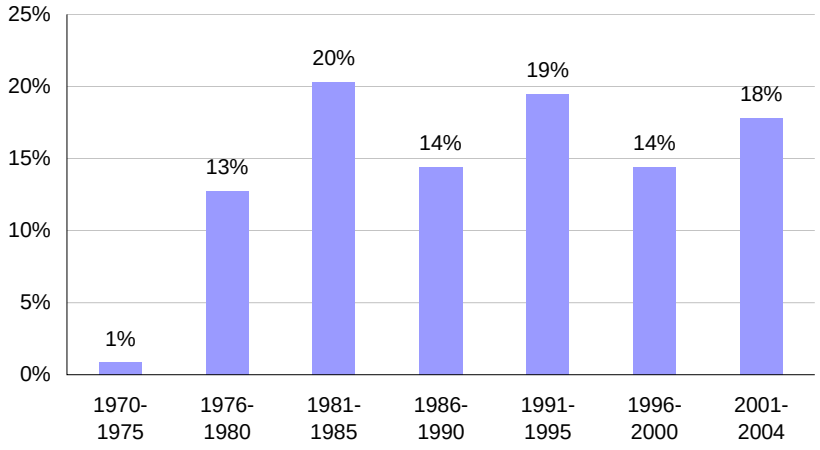
Transfer options

- *The issue of Trust vs. Will for transferring to the children is not well explained or understood by me. Why is it the way it is?*
- *Since the newer BMR owners are paying more for their units and holding professions in the city such as policeman, firefighter, etc they will be looking to protect themselves in the future regarding probate of their wills and property. The BMR program should allow these units to be put into a trust to avoid probate with the proviso already established that it is sold back to the city. We are just as sophisticated financially as those who are not in BMR properties. The BMR program would change its "philosophy" regarding this or make a serious effort to remedy the problem.*

6. Improvements to BMR Units

The owners reported the year they purchased their homes. Although this data does not depict when the units were originally built, it does convey that the survey respondents live in homes with a ranges of ages.

Figure 15: Year Respondents Purchased Units



To assess the general condition of the BMR housing stock, the owners were asked to report on the age of appliances and amenities in their homes. As expected because of its useful life and relatively low cost, paint is the most common upgrade to BMR homes, with 64% of owners reporting that they have painted within the last five (5) years. Other relatively new elements include water heaters, microwaves, and garbage disposals. Flooring/carpeting has a longer useful life, as reflected by 63% of owners having replaced it within the last ten (10) years. The oldest aspects of BMR homes include windows, bathroom cabinets, heating systems, and bathtubs.

Table 7: Age of Appliances and Amenities

	Up to 5 Years	6-10 years	11-15 years	16-20 years	21 Years or more
Paint	64%	13%	16%	6%	1%
Water Heater	55%	16%	18%	7%	5%
Microwave	53%	27%	11%	5%	4%
Garbage Disposal	50%	20%	13%	12%	5%
Washer/dryer	48%	25%	14%	13%	5%
Flooring/Carpeting	42%	21%	14%	16%	7%
Dishwasher	41%	18%	13%	20%	9%
Refrigerator	40%	22%	18%	17%	3%
Range	30%	12%	18%	22%	18%
Toilet	27%	12%	17%	23%	21%
Bath fixtures	22%	16%	19%	21%	22%
Kitchen cab & fix	20%	8%	21%	24%	27%
Windows	19%	9%	21%	26%	25%
Bath cabinets	17%	15%	20%	25%	23%
Heating system	12%	5%	21%	31%	31%
Bathtub	12%	10%	20%	29%	29%

BMR owners were also asked to report on the amount of money they spent on different improvements they have made. This data reveals the range BMR owners typically spend on different types of improvements and provides a general picture of the investment owners have made in their homes.

Table 8: Number of Improvements by Dollar Amount

	$500 or less	$501 - $1000	$1001 - $2500	$2501 - $5000	$5001 - $7500	$7501 - $10000	$10001 or more	Total
Asbestos ceiling	1	1	0	1	0	0	0	3
Bathtub	2	3	0	0	0	0	0	5
Heating system	1	0	1	1	2	1	0	6
Windows	1	1	3	4	1	1	0	11
Bathroom cabinets	5	5	2	0	0	0	0	12
Toilet	10	1	2	0	0	0	0	13
Bathroom fixtures	11	4	0	0	0	0	0	15
Kitchen cabinets/fixtures	1	4	3	2	0	2	3	15
Water Heater	8	7	2	0	0	0	0	17
Microwave	21	1	0	0	0	0	0	22
Range	10	9	4	0	0	0	0	23
Paint	9	8	6	3	1	0	2	29
Dishwasher	18	12	0	0	0	0	0	30
Washer/dryer	0	21	10	0	0	0	0	31
Garbage Disposal	32	1	0	0	0	0	0	33
Refrigerator	10	21	5	0	0	1	0	37
Flooring/Carpeting	1	4	15	12	6	1	1	40
Total	141	103	53	23	10	6	6	342

Owners were asked to report on other improvements they have made that were not included in the previous questions. Common improvements include: outdoor amenities such as decks and landscaping; cabinets and shelves for additional storage; and window treatments. Others include:

- *Bath and kitchen remodeled with new counter top and sink/fixtures, new range and hood.*
- *Added air conditioning in 1994 for $3,000. Kitchen remodel $20,000.*
- *Upgraded kitchen flooring and cabinets and drawers. Garage cabinets and door opener $1450. Bedroom closet system and mirrored doors $1050.*
- *Base and crown molding planned for 2005.*
- *New tile in bathroom*
- *New molding: 2004 $600*
- *1999 - $3,000 kitchen floor tile*
- *Painted kitchen cabinets, built in bookcases*
- *2004 HVAC*
- *Kitchen counters and both bathroom linoleums - 6/01 - replaced tile to new - $800*
- *A/C in living room. Opened wall between dining room and kitchen about 1980-$2,500*

- *Bathroom: replaced light and painted 2 years ago. Kitchen cabinets and fixtures: replaced light and painted/trimmed out cabinets 2 years ago; windows: painted wood trim on windows 1 year ago; Other: added electric fireplace in living room 1 year ago.*
- *Put in hardwood floor in kitchen and foyer $2,500. Lots of landscaping: trees trimmed, bulbs, lots of perennials $3,000. New track lighting $200. New outdoor fixture $150.*
- *Roof 3 years old, work done in 2001*
- *Several skylights installed 15 years ago.*
- *Completely repainted all the rooms and added crown molding, remove the popcorn on the ceilings and had ceilings lights placed.*
- *Granite 3 yrs old $6,000*
- *Pergo flooring downstairs*
- *Most of the downstairs flooring has been replaced with tile, as was one bathroom (originally carpeting).*

When asked what improvements are needed in their homes that have not been done, the owners replied with:

- *New energy efficient windows as needed.*
- *Doors need painting*
- *Refrigerator too small. Oven gets too hot, burns everything. Dryer inoperable, takes too long to dry clothes. Planning full kitchen and bath upgrade*
- *Windows need insulation*
- *Fence 24 years old needs improvements*
- *In the near future, I need to upgrade both bathrooms - tile floors, new fixtures, toilets, and new paint.*
- *The master bath is not up to code, so we have never been able to use the bathtub/shower, but we can't afford to remodel*
- *Time to make plan to remodel bathroom to make it compatible with senior citizen living- i.e. higher toilet, step in shower, rails, pull out shelves. Also need to find suitable vendor and or contractor.*

Owners also responded with reasons why they have not made improvements to their homes. Several owners indicated that they purchased their homes new and have not had any need or desire to make changes. Thirty-one (31) owners reported that they could not afford to make improvements. Their specific responses included:

- *Many [improvements] are needed due to very low quality of workmanship and low quality materials. We cannot afford to fix all problems.*
- *I have a lot of improvements that need to be done. I'm getting more into debt trying to pay for repairs. Unit was in bad shape.*
- *I have stopped making improvements when I learned how they were depreciated in the formula for setting the selling price. Up until that time I had made $20K in improvements.*
- *Loss of spouse's income due to illness has caused financial difficulty.*
- *Everything remains well maintained. My limited budget discourages unnecessary changes.*
- *Deed restrictions say it must be equal to 1% of the purchase price - don't know if it will increase my value.*
- *I don't know if I am allowed to add rooms.*

- *I've just paid out $27,000 for 2 special assessments that should have been pro-rated for BMR units but the HOA made us pay full price!*
- *My unit needed many repairs -- all new appliances and carpet and paint -- some of which I have undertaken. I would like to renovate the bathrooms completely but cannot afford to do so.*
- *I repaired things that were in need of repair, not for cosmetic reasons. We were told not to make expensive improvements.*

7. Financial Situation of Homeowners

Homeowners Association Dues and Special Assessments

In the past, BMR homeowners have expressed concern that homeowners' association (HOA) monthly dues and special assessments threaten their financial security and reduce ongoing affordability of BMR units. To explore this issue, owners were asked a series of questions about their financial situation. Many owners also provided comments about this issue. For example:

- *I believe the city should carry a city loan program for the BMR units for large assessments that EVERYONE can qualify for, not with 40 different qualifications that only two unit owners can qualify for, and then the city ran out of money and those two people (at my complex) didn't get city help. There is a HUGH problem with construction defects--large assessments--within these complexes and the BMR units are subject to unfair (disproportional) costs which jeopardizes many BMR homeowners.*
- *The unit I live in is no longer affordable housing due to substantial increases in homeowners fees. If I could move I wouldn't hesitate to do so but as a disabled, low income resident I am in no position to do that.*

Most owners reported that their monthly dues have gone up more than they expected. Thirty one (31) percent find it "Always" or "Often" hard to pay their regular monthly dues. Thirty one percent of owners have also had trouble paying special assessments.

Figure 16: Change in HOA Dues Compared to Expectations

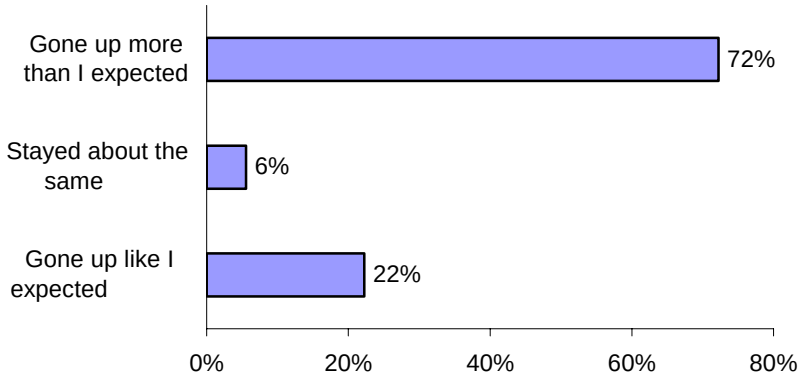


Figure 17: Difficulty paying Monthly HOA Dues

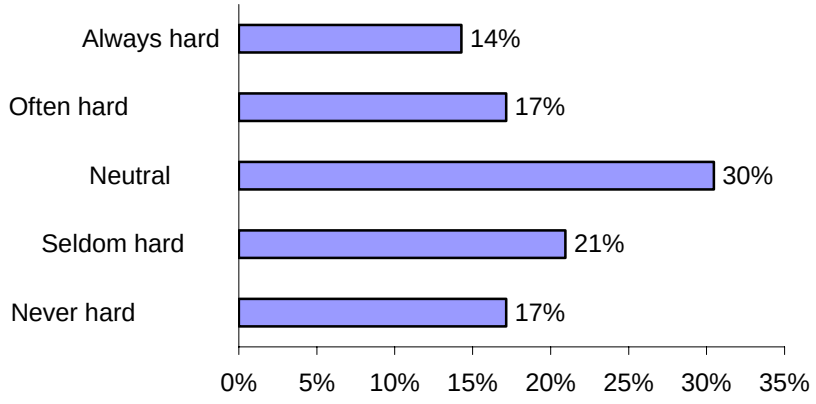


Figure 18: Difficulty Paying Special Assessments

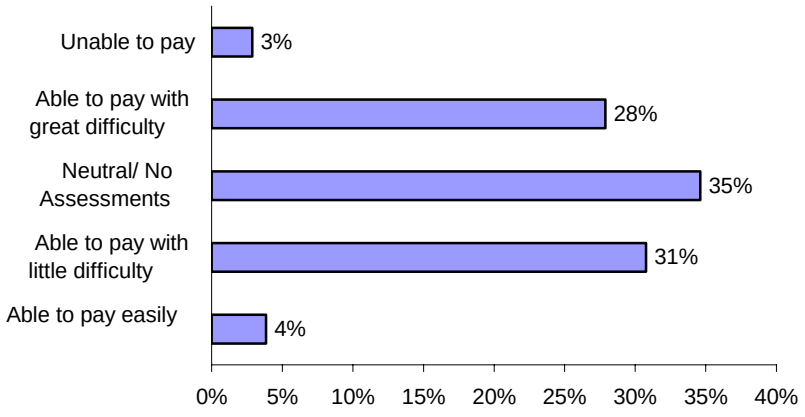


Figure 19: Maximum Affordable Assessment

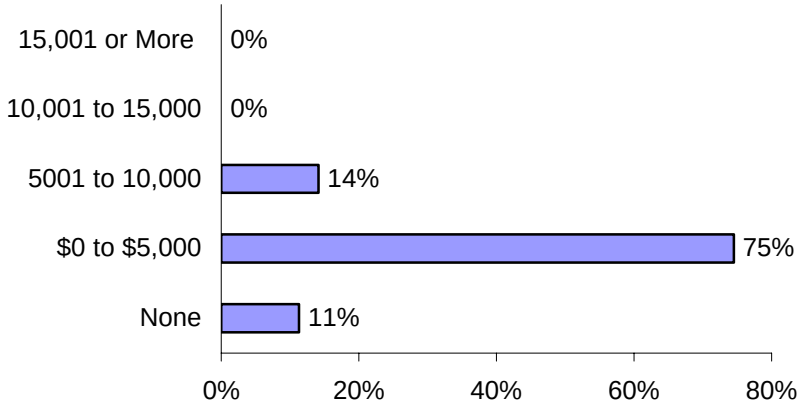


Figure 20: Maximum Affordable Monthly payment for an Assessment

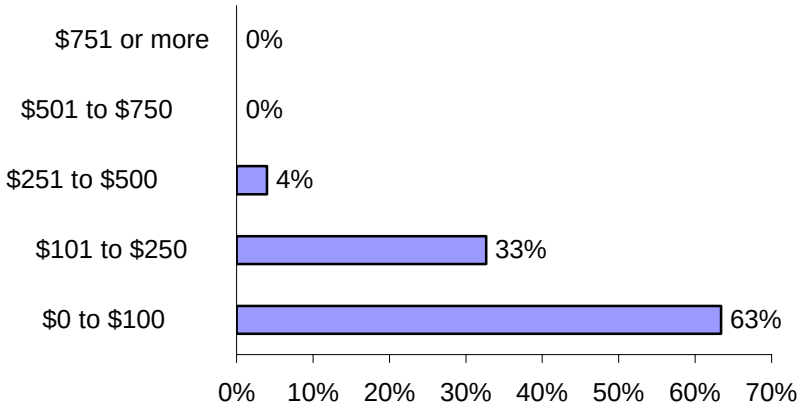


Figure 21: Importance of Price at Time of Purchase

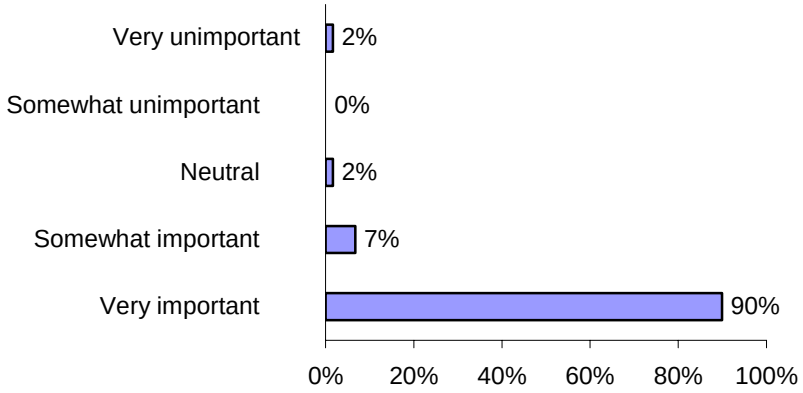


Figure 22: Income Changes Since Time of Purchase

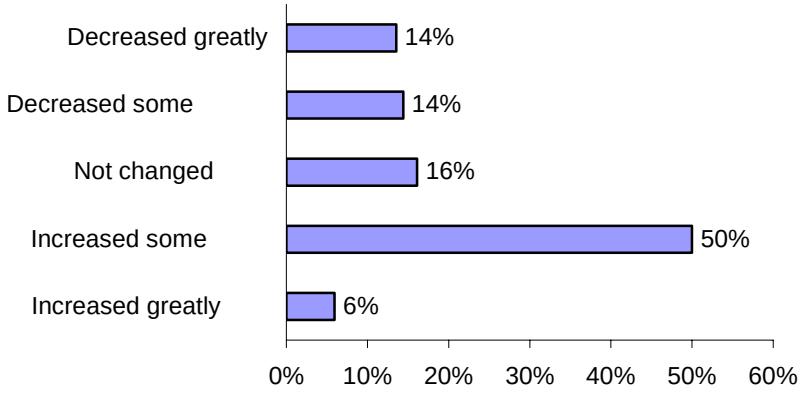
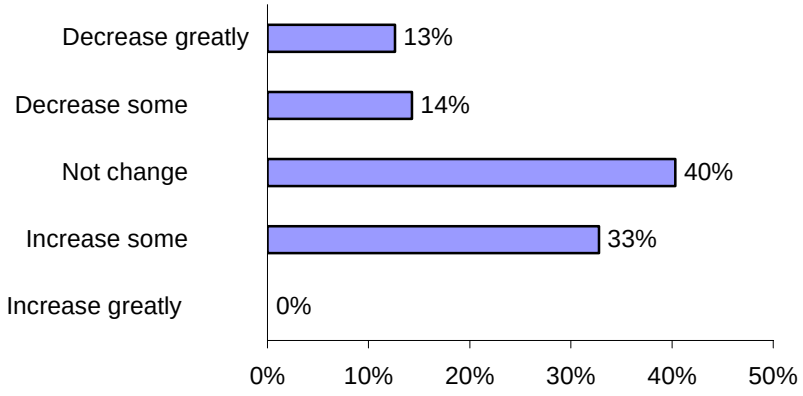


Figure 23: Expected Income Change in Next Five Years



Mortgage Information

The majority (74%) of owners reported that they have a fixed-rate mortgage on their home. Twenty-five (25) percent of owners have adjustable rate mortgages, and only one owner reported having an interest only loan.

Table 9: Types of Mortgages

	Number	Percent
Interest Only	1	1%
Adjustable Rate	23	25%
Fixed Rate	67	74%

The respondents were equally split on the issue of refinancing; 50% have refinanced their original loan, and 50% have not. The owners that have refinanced were asked how many times and in what years. Fifty-three (53) respondents provided additional information about refinancing as identified below.

- Six (6) owners reported that they have refinanced three times or more
- Fifteen (15) owners reported refinancing two times
- Thirty-two (32) owners have refinanced one time

Many of the owners that have ***not*** refinanced also provided explanations. Illustrative examples include:

- *Unemployed*
- *No experience, should have, did make a few extra payments. I did pay the mortgage off 4 years early in 2002*
- *Variable mortgage rates went down during life of loan*
- *Too busy with other things*
- *Financial institutions don't refinance small amount. And also we were satisfied with our institution.*
- *With my mortgage and deed restriction it isn't possible*
- *Was told that it was too close to pay off to save anything in refinancing*
- *Too confusing*
- *Still trying to settle in, haven't given it much thought*
- *Special loan program*
- *Mine is an ARM- has always been great!*
- *No appreciation*
- *I didn't know I could. I seem to have a great loan (but it is adjustable)*
- *I plan to refinance in the near future*
- *Procrastination, b) rate not too bad*
- *Would like to, but not feasible at this time.*
- *We were not approved.*

The current mortgage interest rates reported by respondents cover a wide range:

- Around 2 %
- 4 %
- 4 %
- 4.5 %
- 4.6 %
- 4.75 %
- 5.5 %
- 5.5 %
- 5.75 %
- 6 %
- About 6 %
- 6.25 %
- 6.25 %
- 6.33 %
- 6.5 %
- 6.5 %
- 6.75 %
- 6.875 %
- 7 %
- 7 %
- 7 %
- 7.25 %
- 7.25 %
- 7.25 %
- 7.5 %
- 7.5 %
- 8 %
- 9 %
- 9.5 %
- 10.25%

Sixteen (16) homeowners reported that they have an equity line of credit loan on their home. Twelve of them also included the amount:

- $6,000
- $18,000
- $25,000
- $30,000
- $40,000
- $50,000
- I haven't used it yet, but it is $50k
- $65,000
- $65,000
- $76,000
- $124,000
- $125,000

Table 10: Total Balance Due on All Home Loans

Total Balance on all Loans	Number of Respondents
0	24
Up to 25,000	4
25,001 to 50,000	17
50,001 to 75,000	14
75,001 to 100,000	12
100,001 to 125,000	7
125,001 to 150,000	2
150,001 to 175,000	2
175,001 to 200,000	1
200,001 to 225,000	1

8. Future Plans

Owners were asked whether they have plans to sell their homes. Three (3) owners reported a desire to sell within the year. Fourteen (14) owners plan to sell in two to five years. The owners that plan to move were asked their reasons for selling:

- *To have a 2 bedroom BMR for myself and my son*
- *Would like to get into single detached home vs. condo*
- *Move to a 3-bedroom (or larger) BMR unit*
- *Moving out of the area*
- *Dissatisfied with complex*
- *Only if health prevents me from being able to walk up 28 stairs.*
- *Too hard to live upstairs without elevators*
- *Only if I get 3 bedrooms - BMR*
- *Personal, recover special assessments*
- *Move to another state*
- *My mother went into a nursing home so my sister and I are going to live in the family home.*
- *Association fees and special assessments*

The owners planning on selling their homes provided some details about where they are planning on moving. One household plans to purchase a market priced home in Palo Alto. Three owners plan to purchase a market priced home in another city. Two will move into senior or assisted care housing. Other responses included:

- *Hope to purchase a 2 bedroom BMR in PA*
- *Hopefully, purchase 3 or 4 bedroom BMR unit*
- *My name is back on the housing list for a home with an elevator. However with prices of BMR units today I don't think I could afford to move.*
- *Go back on BMR waiting List and buy a different unit*
- *Move into family home because my mother went into a nursing home.*
- *Hope to purchase another BMR in Palo Alto, otherwise I will have to rent.*
- *Move out of area*

9. Final comments on the BMR Program

Strengths

- *Great and very helpful program for those who cannot afford to live and work here in Palo Alto. It certainly gave us a future. If there is anything we can do to support the program we will be more than happy to do it. Thank you for your hard work.*
- *It's an excellent program, highly needed.*

- *This program has been and is the greatest gift in my life. I am so grateful for the security and pride of ownership. I was a single parent (my husband was mentally ill). I also suffer from depression. I'm not sure I would have managed without the help. Both of my children graduated from college. I am their rock, this unit is mine.*
- *I feel fortunate to live in such a wonderful home.*
- *Thank you for a wonderful opportunity to have a place to live.*
- *Our condominium complex is well run because we keep up to date with our maintenance. This is very important and needs to be stressed to all new homeowners.*
- *I think it's a great program. People like me need to be able to afford to live here to make Palo Alto a better place for everyone.*
- *Wonderful program! I'll be forever thankful for the program, allowing me to have the security of being a homeowner in a lovely city and in a lovely home.*
- *We are so thankful for this program. We thank you.*
- *I'm 70- and I intend this to be my lifetime home.*
- *I'm a teacher and a single mother. I have a good education and have had jobs, which require my degrees, but I could never have bought anything near my jobs on my salary. Furthermore, in 1997 the rents rose dramatically in this whole area just as I was able to purchase this BMR. This home meant I could stay in Palo Alto where I had lived for years and I could help my daughter go to college because the house payment was the same as the rent I had been paying.*
- *I appreciate the opportunity.*
- *I am very grateful to have a comfortable home, thanks to the BMR program.*
- *I'm really glad it's here! I was truly wondering if I was going to have to leave PA and family because rent was so high.*
- *This was a lifesaver for my family - my husband died age 44, 4 years after we moved in. There would be no way I could have stayed here to keep my job and offer stability for my 2 children's schools, home and friends.*
- *My income was greatly reduced while I was out from work for almost two years while being treated for breast cancer. Times were very hard financially. Had we not had affordable housing at that time, we very likely would have been unhoused. Ownership of affordable housing is something I count myself blessed for almost every day. We are able to live, work, study, and build community in Palo Alto. My child has benefited from the bounty that living in Palo Alto brings (schools, programs, parks, music education, coaches, etc.). I've always taken great comfort that while I am at work my child is close by; something that wouldn't be possible if I was paying market rate for housing.*
- *Just very grateful it exists. I now have two kids in college and without the security of having a place to live close to work and school--I don't know where we would be now. THANK YOU SO MUCH!*

Concerns and Suggestions:

- *Owners should be able to rent out units - i.e., during sabbatical. The BMR should be paid at least to keep up with inflation not at a fraction of inflation rate. When unit was purchased the difference between BMR and market rate was only $10,000 to $20,000 difference. Now the difference is over $250,000. This does not seem right.*
- *I wish the program could be used as a stepping-stone for getting into market priced homes. This would benefit the program by having greater turn over of units as well as helping owners get into market priced homes. The formula for establishing selling price needs to be reviewed.*
- *Great loss to me financially. Had I moved to Mt. View, to a private condo, I'd be much better off today. Can't afford to move now.*

- *In 1976 purchase association dues were $75.00. January 2005 Association dues will be $406.00. It is my belief that BMR and the Home Owners Board Association should worker closer together in establishing rules and regulations for homeowners.*
- *I would like to see a report that shows the appreciated value of my home. I would like to get this report every few years - it helps to know the value since at some point I might do a reverse mortgage if needed during my retirement. Thank you.*
- *I think that more realistic financial formulas would make it stronger and give more incentive to the owners and probably allow the program to increase in size. Finance today is not what it was in the 70's.*

10. Appendices

Appendix A: Inventory of Below Market Rate Units

City of Palo Alto Below Market Rate (BMR) Housing Program Inventory of Homeownership Units as of September 1, 2005				
Development Name	**Year First Sold**	**BMR Units**	**Market Rate Units**	**Substantial Assessment**
Foothill Green	1975	4		
Villas de San Alma	1975	8	26	March 1991 $4507
Greenhouse I	1975,1983,1987	14	126	
Greenhouse II	1976	10	78	
Channing Place	1976	2	24	
410 Sheridan	1977	5	50	
Villas de la Plazas	1978	4	34	
Vista Townhouses	1979	2	24	
San Antonio Village	1979	2	38	
Barron Square	1979	6	24	Sep 2002 $8,826.25 each
Palo Alto Greens	1981	4	45	
Colorado Place	1981	2	20	
Palo Alto Redwoods	1983	12	105	2001: $4,080 each 2002: $13,675 each 2003: $2,250 each

City of Palo Alto Below Market Rate (BMR) Housing Program Inventory of Homeownership Units as of September 1, 2005				
Development Name	**Year First Sold**	**BMR Units**	**Market Rate Units**	**Substantial Assessment**
Oregon Green (off site)	1984	1	91	
Birch Court - BMR Units Birch Court - Discount Units	1984	5 17	18	
Palo Alto Central	1984	7	60	
Loma Verde Village	1985	4	35	
Loma Verde Townhomes	1985	2	25	
Channing Court	1985	1	9	
Ashby Duplex	1985	2		
Abitare	1985	9	35	June 2002 $21,806 - $26,409 each
Ortega Duplex	1986	2		
Talisman Duplex	1987	2		
Bautista Duplex	1987	2		
The Hamlet	1988	6	48	2003 $11,900 - $17,434 each
Terrace Bay Homes	1988	2	22	
The Rosewalk	1988	4	44	
Ramona Courts	1989	1	9	

City of Palo Alto Below Market Rate (BMR) Housing Program Inventory of Homeownership Units as of September 1, 2005				
Development Name	**Year First Sold**	**BMR Units**	**Market Rate Units**	**Substantial Assessment**
Charleston Village	1990	2	30	
Christensen Court	1992	1	11	
Camino Place	1992	4	26	
Spanish Villas	1993	1	8	
Jacobs Court	1993	3	16	
Promenade	1994	7	67	
Bryant Court	1997	1	12	
Silverwood	1999	3	32	
Classics at Barron Park	2000	4	22	
Wisteria	2000	1	11	

Appendix B: Homeowner Survey

CITY OF PALO ALTO
BELOW MARKET RATE HOUSING PROGRAM
HOMEOWNER SURVEY

How many people live in your home? Please indicate their relationship to the owner.

Occupant	Age	Relationship to Owner
#1 Owner		
#2		
#3		
#4		
#5		
#6		
#7		

1. **Total number of persons residing in the unit: _____**

2. **Does a member of your household have a physical disability?** Yes No

3. **What year did you move into your BMR unit? _____**

4. **If the City of Palo Alto BMR Program had not been available when you bought your home, would you have:**
   - ❑ Stayed in Palo Alto and bought a regular (market priced) home
   - ❑ Stayed in Palo Alto and lived in a rental home
   - ❑ Moved out of Palo Alto and bought a regular (market priced) home in another city
   - ❑ Moved out of Palo Alto and lived in a rental home in another city
   - ❑ Other: _____

5. **When you purchased your home, did you: (mark more than one if necessary)**
   - ❑ Lived and Worked in Palo Alto
   - ❑ Lived in Palo Alto
   - ❑ Worked in Palo Alto
   - ❑ Lived Elsewhere (please specify:_____)
   - ❑ Worked Elsewhere (please specify:_____)

We would like to understand how well you know your rights and responsibilities under the BMR Program. Please circle an answer for each question.

5. Do you know the current resale value of your home under the deed restrictions for your BMR unit?

   Know for sure Know fairly well Know somewhat Don't know at all

6. Do you understand how the resale price and appreciation is calculated under your deed restrictions?

   Know for sure Know fairly well Know somewhat Don't know at all

7. Do you know what you are required to do under the BMR program rules and your deed restrictions if you want to refinance your home?

   Know for sure Know fairly well Know somewhat Don't know at all

8. Do you understand the rules that require that BMR units must be owner-occupied and the rules prohibiting the rental of BMR units?

   Know for sure Know fairly well Know somewhat Don't know at all

9. Do you know how the future sales price of your home will be adjusted if you make improvements?

   Know for sure Know fairly well Know somewhat Don't know at all

10. Overall, how well did you understand the rights and responsibilities of owning a BMR home *when you bought your unit*?

    Knew for sure Knew fairly well Knew somewhat Didn't know at all

11. Comments_____

    _____

    _____

We would like to know how satisfied you are with the BMR Program. Please circle an answer for each question.

12. How satisfied were you with the original purchase price that you paid for your home?

Very Satisfied Satisfied Neutral/No Experience Dissatisfied Very Dissatisfied

13. How satisfied are you with the appreciation formula and resale price?

Very Satisfied Satisfied Neutral/No Experience Dissatisfied Very Dissatisfied

14. How satisfied have you been with your unit (amenities, size, etc.)?

Very Satisfied Satisfied Neutral/No Experience Dissatisfied Very Dissatisfied

15. How satisfied have you been with your complex (or neighborhood if you own a duplex)?

Very Satisfied Satisfied Neutral/No Experience Dissatisfied Very Dissatisfied

16. Are there other aspects of the BMR Program you have been especially happy with?

_____

_____

_____

_____

17. Are there aspects of the BMR Program you would recommend changing?

_____

_____

_____

_____

We would like to understand what types of improvements you have made to your unit and what improvements may be needed but you have not made. Please complete the following chart regarding improvements you have made or would like to make:

Feature	Approximate Age	Improvements Made: Date, Amount	Improvements Planned	Improvements Needed
Appliances Refrigerator Range Dishwasher Washer/Dryer Microwave Garbage Disposal Water Heater				
Heating System				
Flooring/Carpeting				
Asbestos ceilings (if applicable)				
Bathroom cabinets fixtures bathtub toilet				
Kitchen cabinets and fixtures				
Windows				
Paint				
Other				

18. How many bedrooms are in your home? _____

19. How many bathrooms are in your home? _____

20. If you have not made improvements to your home, please tell us why:

_____

_____

_____

We would like to understand some aspects of your financial situation to see if changes might be desirable to keep BMR units affordable, safe, and in good condition Please circle an answer for each question.

21. Was price important to you when you decided to buy your BMR home?

Very important Somewhat important Neutral Somewhat unimportant Very unimportant

22. Has your household income changed significantly since you bought your home?

Increased greatly Increased some Not changed Decreased some Decreased greatly

23. In the next five years, how do you expect your household income to change?

Increase greatly Increase some Not change Decrease some Decrease greatly

24. How have your Home Owners Association dues gone up compared to your expectations when you bought your home?

Gone up like I expected Stayed about the same Gone up more than I expected

25. Is it hard for you to pay your monthly Home Owners Association dues?

Never hard Seldom hard Neutral Often hard Always hard

26. Have you had trouble paying Special Assessments made by the Home Owners Association?

Able to pay easily Able to pay with little difficulty Neutral/ No Assessments Able to pay with great difficulty Unable to pay

27. If your Home Owners Association proposed a large assessment, what's the most you could afford comfortably without causing great hardship?

$0 to $5,000 $5,001 to $10,000 $10,001 to $15,000 $15,001 or More

28. If you had to pay a Special Assessment in monthly payments, what is the most you could afford?

$0 to $100 $101 to $250 $251 to $500 $501 to $750 $751 or more

29. Have you refinanced your original mortgage you used to purchase the home? Yes No

If Yes, how many times have you refinanced and in what years?

_____

If No, why not? _____

What is the current interest rate on your mortgage? _____

_____

30. Do you have an equity line of credit loan on your home?

Yes (Amount $ _____) No

31. What is the total balance due on all loans on your home? (if known)

_____

32. What type of home loan do you have?

Fixed-rate Adjustable rate Interest only Reverse Equity

Future Plans

33. Do you have plans to sell your unit?

No Yes, within the year Yes, in 2-5 years

34. If Yes, what are your reasons for selling?

_____

35. If Yes, will you:

- ❑ Purchase a regular (market priced) home in Palo Alto
- ❑ Rent a home in Palo Alto
- ❑ Purchase a regular (market priced) home in another city
- ❑ Rent a home in another city
- ❑ Move in with family
- ❑ Move into senior or assisted care housing
- ❑ Other: _____

36. Do you have any additional comments on the BMR Program?

_____

_____

We would appreciate knowing more about you to help us design changes in the BMR Program that could make it more successful. The following section is optional and will only be used to help us evaluate if proposed improvements would be effective.

OPTIONAL SECTION

37. Please mark the box that corresponds to the number of people in your household and your household's total gross annual income. Include the income of all household members 18 years old or older.

Income	**Number of People in Your Household**						
	1	**2**	**3**	**4**	**5**	**6**	**7**
Under $22,000							
$22,001 to $25,000							
$25,001 to $28,000							
$28,001 to $32,000							
$32,001 to $34,000							
$34,001 to $37,000							
$37,001 to $42,000							
$42,001 to $47,000							
$47,001 to $53,000							
$53,001 to $57,000							
$57,001 to $59,000							
$59,001 to $65,000							
$65,001 to $68,000							
$68,001 to $70,000							
$70,001 to $76,000							
$76,001 to $85,000							
$85,001 to $91,000							
$91,001 to $98,000							
$98,001 to $105,000							
$105,001 to $112,000							
More than $112,001							

39. Household Income Sources: (Mark more than one if necessary)
- ❑ Salary or Hourly wage
- ❑ Commission
- ❑ Self employed
- ❑ Pension, Social Security, or Annuities
- ❑ Permanent Disability

- ❑ Unemployment or Temporary Disability
- ❑ Family
- ❑ Child support or Alimony

If there is more than one owner of your BMR unit, please provide information about the owner that you consider the <u>head</u> of your household:

40. Marital Status

- ❑ Married
- ❑ Separated
- ❑ Unmarried / Single
- ❑ Divorced
- ❑ Widowed

41. Employment Status:

- ❑ Employed full-time
- ❑ Employed part-time
- ❑ Self-Employed
- ❑ Retired
- ❑ Disabled, Not working
- ❑ Unemployed
- ❑ Student/Other status
- ❑ Employed with more than one job

May we contact you about this survey? Yes No

If Yes,

Owner Name: _____

Daytime Phone: _____

Evening Phone: _____

Cell Phone: _____

Email address: _____

What is the best method and time to contact you? _____

Please send this survey in the enclosed envelope and send the enclosed postcard separately on the same day. Thank you for your participation.

City of Palo Alto
Below Market Rate Housing Program

Survey of Homeowners:
Technical Document Including all Comments

Conducted by the Department of Planning and Community Environment in conjunction with Palo Alto Housing Corporation

Julie Caporgno, Advance Planning Manager
Cathy Siegel, BMR Housing Coordinator
Jennifer Coile, Housing Contract Planner
Laura Russell, Survey Coordinator

August 2006

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Description of Survey Process

The Homeowner Survey is a key part of a comprehensive review of the Below Market Rate (BMR) Program. The survey was designed to provide insight into how well the BMR Program currently meets the needs of moderate-income families and ways in which the BMR Program may be revised and updated. The City also hired a consulting firm (Keyser Marston Associates, Inc. working in conjunction with Anderson Associates) to review economic and legal aspects of the program and offer recommendations for improving administrative efficiency and program effectiveness. The Homeowner Survey was created by the Department of Planning and Community Environment with input from the Palo Alto Housing Corporation, Keyser Marston Associates, Inc., and Anderson and Associates.

The survey was conducted between December 2004 and February 2005. At that time, there were 169 BMR ownership units. This number included homes at Birch Court that had traditionally been referred to as Discount Units (see Appendix A: Inventory of Below Market Rate Units). On December 1, 2004 the first mailing was conducted. All BMR households received a cover letter, 8-page questionnaire, instruction sheet, and response postcard (see Appendix B). Each respondent was asked to return the survey in the postage paid envelope and a response postcard separately. Alternatively, the homeowners had the option of completing the survey online. Using this system, City staff could identify that homeowners had responded, but not which response was theirs.

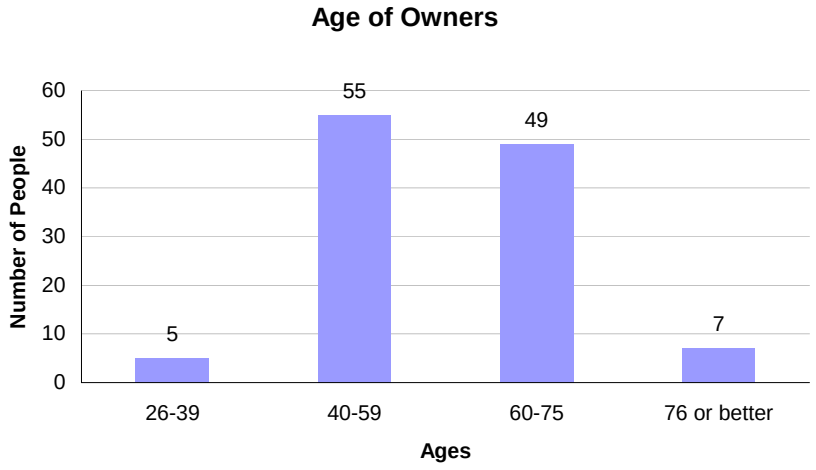
From the first mailing, 82 responses were received by mail and 6 surveys were completed online. The second mailing was sent on January 26, 2005 with an updated cover letter and the other materials identical to the first mailing. In response to the second mailing, 36 more surveys were received.

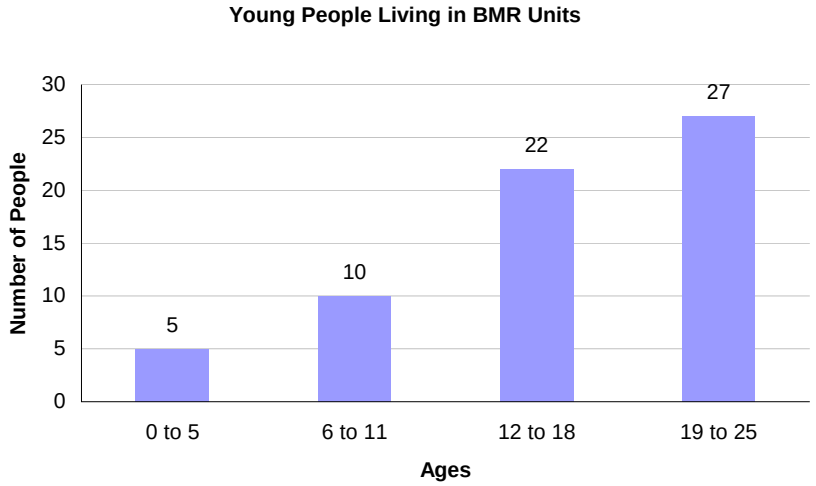
In total, 124 surveys were received, for a response rate of 73%. Although this is a very high response rate, there were 45 households that did not complete the survey. Therefore, it is important to note that the results presented here describe the respondents only. Since the survey was anonymous, there is no basis to assume that the results describe all BMR owners. Respondents were allowed to skip questions, so the total response rate for each question varies. The analysis in this document reflects the number of responses for each question, not the overall response rate. Additionally, several questions about income and employment were designated on the survey form as optional because of their personal nature. These questions had a slightly lower response rate. All of the data from the paper surveys were entered using Survey Monkey, a provider of online survey services.

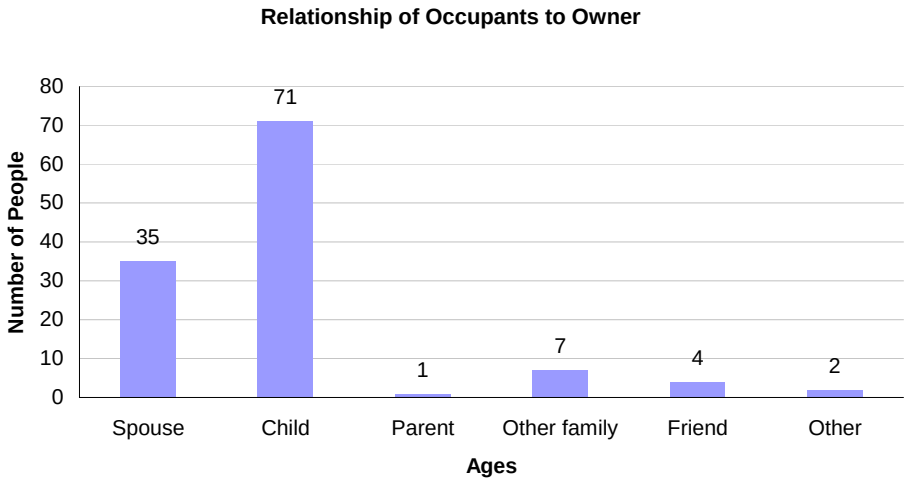
This technical document includes the complete data in the order the questions were asked. All written comments are also included. Whenever possible, the comments were transcribed exactly as written by the respondent. In a few cases, the written comments were difficult to decipher due to the handwriting. In those instances, the transcriber has included notes in (parentheses) to assist the reader. An analysis of the survey data is also available in the document: “Survey of Homeowners: Analysis of Responses.”

Homeowner Demographics

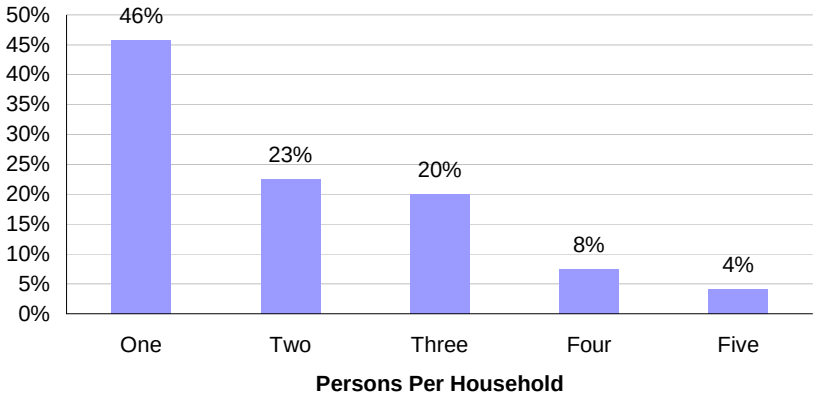
Household composition: age of occupants and relationship to owner.



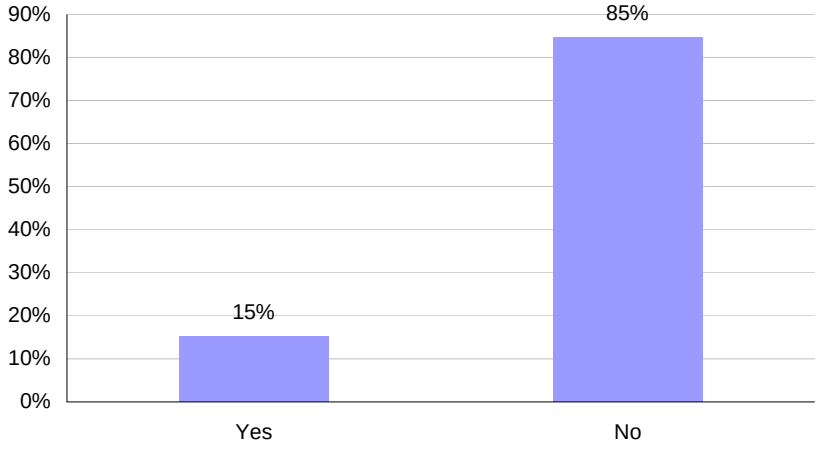




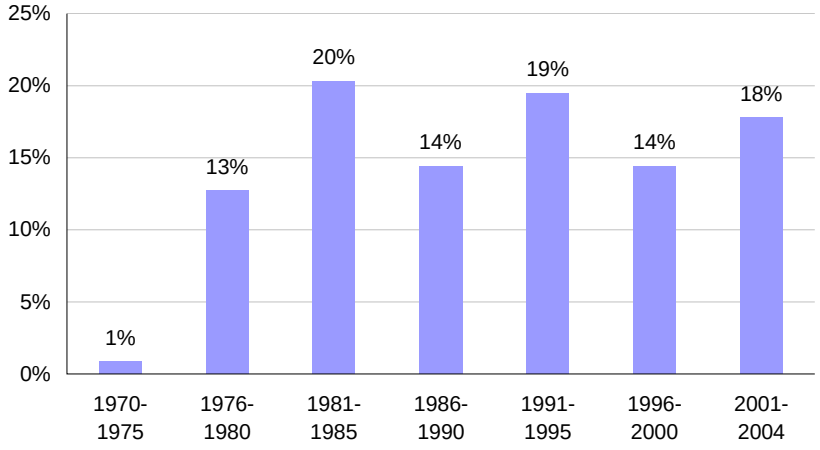
Total number of persons residing in the unit.



Does a member of your household have a physical disability?



What year did you move into your BMR unit?



If the City of Palo Alto BMR Program had not been available when you bought your home, would you have:

	Number	Percent
Stayed in Palo Alto and lived in a rental home	54	45%
Other (details below)	25	21%
Moved out of Palo Alto and lived in a rental home in another city	24	20%
Moved out of Palo Alto and bought a regular (market priced) home in another city	15	13%
Stayed in Palo Alto and bought a regular (market priced) home	1	1%

Other:

- Live elsewhere
- moved out of Palo Alto and lived in a rental home or filed bankruptcy
- Moved into Section 8 rental
- Rental home in Palo Alto OR rental home in another city
- Live with parents
- stayed with family
- Lived in apt outside of area
- continued to live outside Palo Alto
- never could afford options given
- move out of CA
- unknown
- stayed in Palo Alto stayed in present home
- continued to commute from Milpitas, where I lived with my son.
- rented apartment
- my car
- parents
- Rent in Mountain View
- rental apartment in another city
- Redwood City
- Don't know-I would have preferred to stay in Palo Alto because I had two children in the school system.
- moved to another city with BMR program like Mt.View, Sunnyvale, Menlo Park, etc...
- Continue living with my parents

When you purchased your home, did you live or work in Palo Alto? (mark more than one if necessary)

	Number	Percent
Lived and Worked in Palo Alto	71	59%
Lived in Palo Alto	27	23%
Lived or Worked Elsewhere (details below)	16	13%
Worked in Palo Alto	6	5%

Lived or Worked Elsewhere:

- Lived in Palo Alto worked in Mountain View
- Lived in Palo Alto worked in Menlo Park
- Lived in Palo Alto worked in San Mateo
- Lived in Palo Alto worked in Mt. View
- Lived in Palo Alto worked in Cupertino
- Lived in Palo Alto worked in San Jose
- Lived Palo Alto. worked in Sunnyvale
- Lived in San Jose worked in Palo Alto
- Lived in San Jose worked in Palo Alto
- Lived in East Palo Alto, worked in Sequoia Union High School District.
- Lived in Mountain View, Teacher Mtn. View-Los Altos School Dist.
- Lived in Redwood City worked in Palo Alto
- Lived in Sunnyvale worked in Palo Alto
- Lived in Sunnyvale worked in Palo Alto
- Menlo Park

How many bedrooms are in your home?

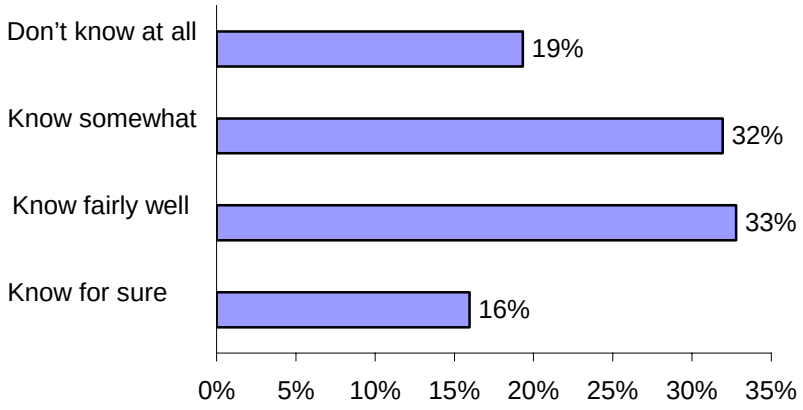
	Number of Respondents	Percent
0/Studio	1	1%
1	33	29%
2	49	44%
3	29	26%
4	0	0%

How many bathrooms are in your home?

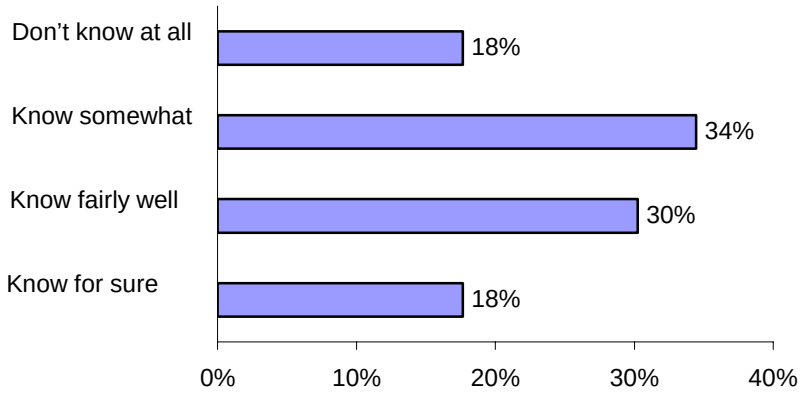
	Number of Respondents	Percent
1	63	56%
1.5	9	8%
2	29	26%
2.5	9	8%
3	2	2%

Understanding of BMR Program Requirements

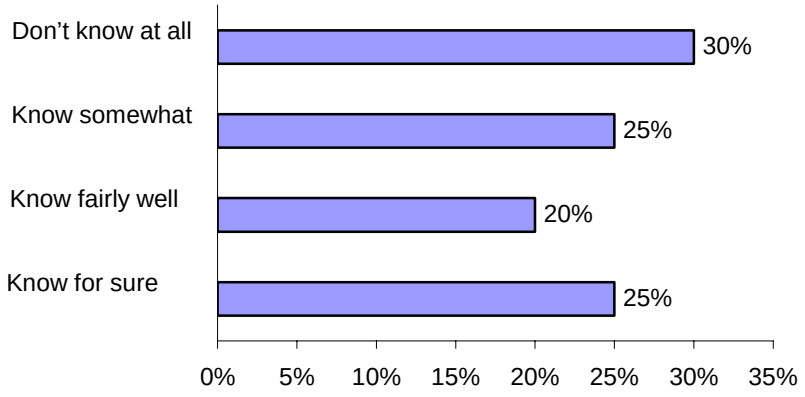
Do you know the current resale value of your home under the deed restrictions for your BMR unit?



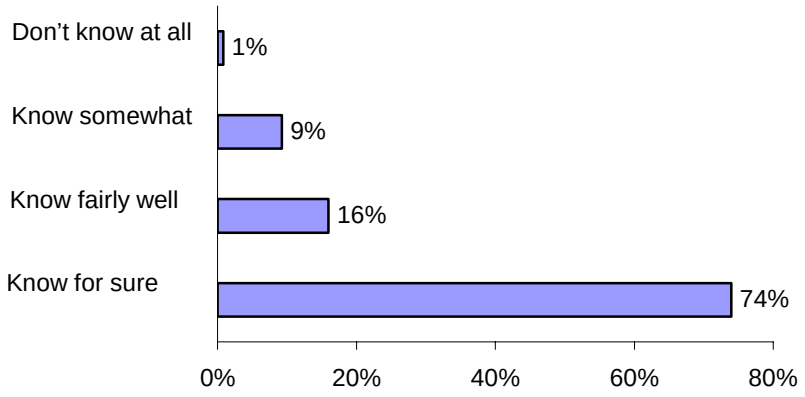
Do you understand how the resale price and appreciation is calculated under your deed restrictions?



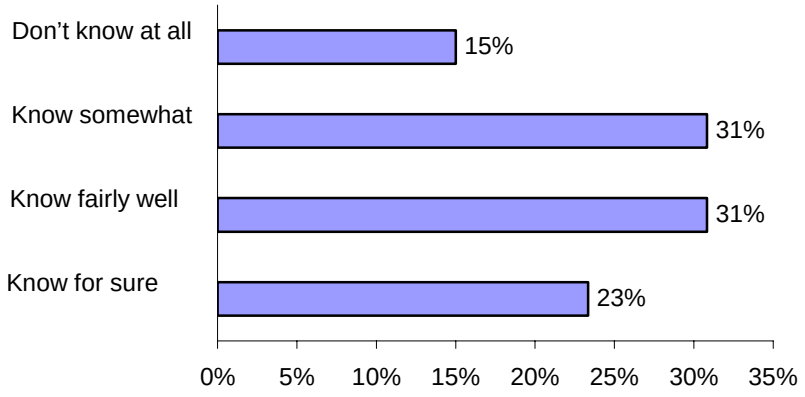
Do you know what you are required to do under the BMR program rules and your deed restrictions if you want to refinance your home?



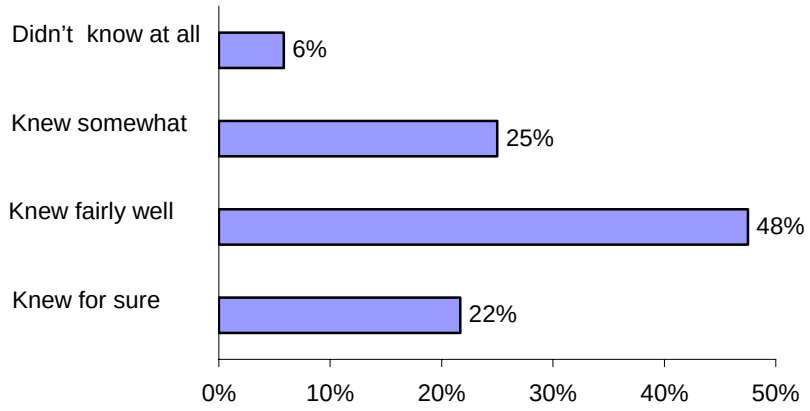
Do you understand the rules that require that BMR units must be owner-occupied and the rules prohibiting the rental of BMR units?



Do you know how the future sales price of your home will be adjusted if you make improvements?



Overall, how well did you understand the rights and responsibilities of owning a BMR home *when you bought your unit*?



Comments:

- I would appreciate a plainly written statement in reference to the above questions.
- I asked Vangee @ PAHC several times what is the formula to figure out how my house appreciates and she told me several times "when you want to know, just call me and I'll tell you what its approx value". If I asked someone else @ PAHC, they said you need to speak to Vangee. Rules also apply.
- I'm not sure what the selling price would be. I would contact Palo Alto Housing Corp if I was planning to sell the unit.

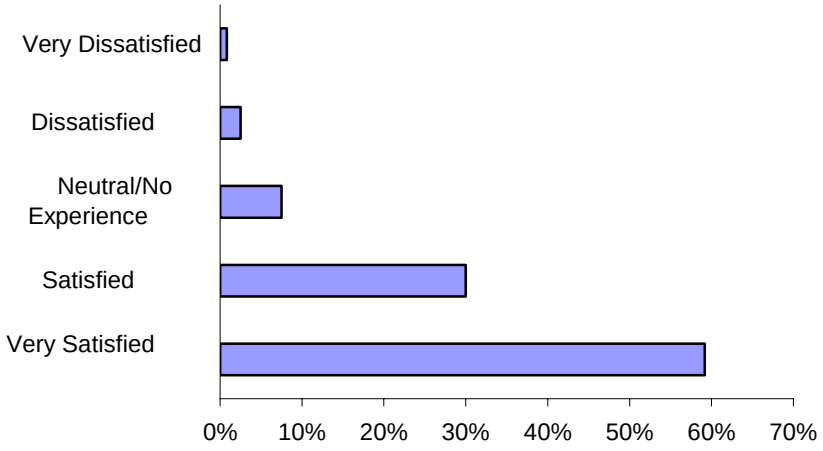
- Wanted to stay in Palo Alto so our daughter could attend PAUSD.
- Very unhappy with the formula used for establishing the selling price.
- Problem was that other residents in complex did not understand rights and responsibilities thinking they could restrict my upgrades of unit. (LR: handwriting hard to read)
- Although we read the regulations at the time of purchase and agreed of course to them, until we are ready to sell or refinance we probably would not seek out that information until that time.
- Inadvertently put in my Trust and had to remove even though the restrictions were already on file in the County Recorders office. The homes would be available sooner for new tenants if allowed to be kept in the trust with the restrictions a part of the Deed of Trust as per an attorney.
- When I bought it, the sale price was about half of the market value. So I think it would be fair when we sell it we also will get half of the market price. Otherwise, we just cannot move if we need to.
- Fast overview given at the time, and SO busy working!
- I have all papers when I bought this unit.
- Would like an update in writing.
- At that time the staff was informative enough.
- This [price and appreciation] is totally unfair. They should increase (LR: unreadable word) not the ridiculous way you do it. I was told when I bought that my unit would be mine and removed from the BMR program. Later you stated it would be off after many more years.
- I can always call the BMR Program with questions and clarification.
- Did not know how much I could be assessed for developer-caused problems (in my case, more than $30,000, which came out of my retirement)
- Price and appreciation: understand there is a formula used. When I bought my unit, knew [rights and responsibilities] fairly well or thought I did.
- I didn't know about refinancing
- can you refinance?
- What I mean by fairly well; 1. The Rules and regulations were never explicitly explained - 1972. 2. Upon purchasing the second BMR, I had a clear understanding of most of my rights and responsibility as an owner.
- The city granted me permission to rent out a room since my income would otherwise be far below the poverty level.
- In the 20 years we have lived here, since PA Housing turned us over to a commercial real estate agent, we have had NO communication with PA Housing.
- Haven't recently calculated precisely how resale price etc. is calculated.
- still not sure about calculations for improvements. Do not understand "60 years rule" (? own outright after 60 years)
- I have been in my unit for 25 years and the rules and restrictions have changed over time.
- Every year I get a card from the County tax people with a total value figure. Is this the same [as the price]? The value is tied to the CPI. I get 1/3 of that. Don't care [to refinance]. I would not do that for any reason. It [rights and responsibilities] was explained clearly to me and at length.
- I was a new U.S citizen
- I have forgotten the deal with selling, and I checked the deed but still am not really knowing how much my house is worth and what 1/3 of the rise is. Where can one get that info?
- PA Housing Corp. made sure we understood all the conditions of the program.
- The BMR representative that was helping with the purchase let the previous owner intimidate her and me. I ended up accepting a condo with a cracked toilet, faulty electrical circuit (220); broken kitchen drawers, unknown if permits were obtained on the hot water heater and addition (I was told by the BMR rep. they were) and I would have to take the unit as is, or let someone else buy it. The previous owner had turned off all the electricity - so I was unable to check the automatic

garage door opener--which didn't work (I was told it did). Anyway, I was so rushed in obtaining loan, signing deeds (which previous owner did not let his wife sign). I think his brother works for the Building Dept. I was just told by a neighbor, that these things should've been done and the unit - clean.

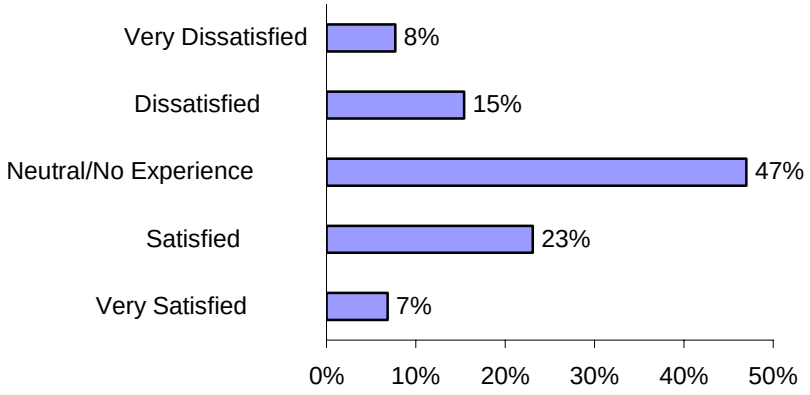
- I went to a BMR seminar several months ago and learned a lot about my unit. These are very informative sessions, but I would like to see more of the time spent on BMR ownership and less on paying bills. Overall, the session was very helpful.
- Took a class later.
- I do not have intention to sell the unit hence I did not pay much attention to this part of ownership
- No one sat down with me to go over the fine details of the rules and restrictions. I learned the information as needed (like refinancing).
- The process of purchasing was very high-stressed, and time constricted. I had to have secured funding within 48 hours of being notified by the Housing Corp., and they didn't spend much time with me explaining the CC&R's, By-Laws, etc... of the condo Association, as well as the BMR programs list of do's and don'ts. I was very lost.
- Appreciate the City setting up this program.

Satisfaction with BMR Program

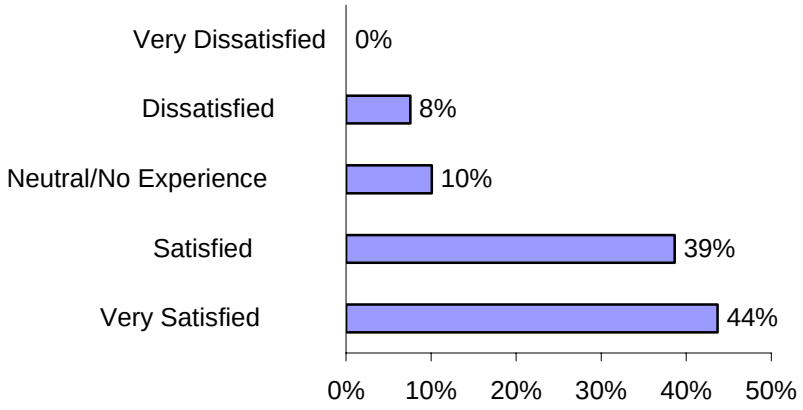
How satisfied were you with the original purchase price that you paid for your home?



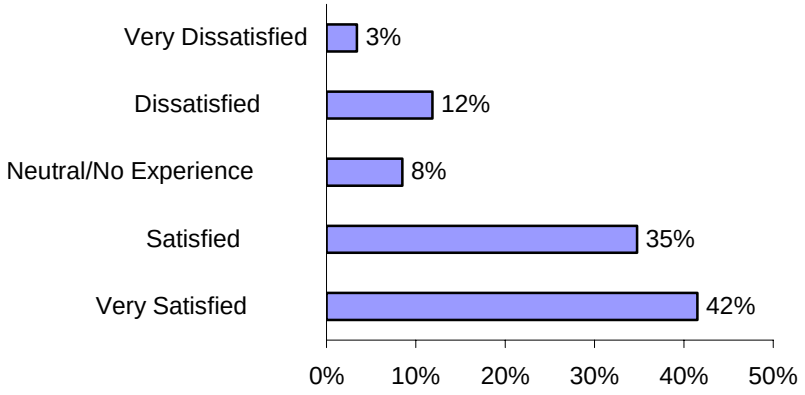
How satisfied are you with the appreciation formula and resale price?



How satisfied have you been with your unit (amenities, size, etc.)?



How satisfied have you been with your complex (or neighborhood if you own a duplex)?



Are there other aspects of the BMR Program you have been especially happy with?

- I'm happy it exists and I've been in a great place.
- The program enabled me to be a homeowner in Palo Alto sooner than I would've been able to otherwise. However, as it turns out, this was at a great cost since the disparity between resale and market value is so great.
- We feel extremely blessed to be where we are.
- The staff at the BMR office was extremely helpful.
- Yes, for A) Giving me a thorough consideration on my application, B) Being always available to answer my questions
- It enabled us to get in a home, otherwise not possible
- the director Linda Mabry
- BMR program employees have consistently been helpful, responsive, and a pleasure to work with.
- Well kept on exterior.
- As prices rose I probably would have had to leave Palo Alto. My children were 15 and 16 when I moved in. They were so proud of the unit. They both regarded the unit as a symbol of security and proud ownership. Their spirits soared when we moved in.
- Owning a home near where I work.
- In the beginning of the program 1974 there was an excellent rapport with those running the program and those interested in owning their own home and I felt very good about it. I'm sorry to say that it has gotten very distant with us over the years. I hope this survey will remedy some of that.
- I don't know.
- The program gave me the opportunity to buy a home and keep my kids in Palo Alto school district.
- I could afford it.

- -The support and guidance given by your staff while we panicked just before the final sale. -The reduction of "red tape" required to purchase a home. -Simply the fact that it exists in this inflation crazed age. Owning is Palo Alto is a dream for us which you made come true. Thank you!
- To know others can purchase a place in Palo Alto and not rent.
- I'm happy that we have the ability to live in Palo Alto and my daughter goes to a good school.
- Don't know of any
- No
- The first of all, I couldn't afford to buy [with] prices around here.
- The fact that the units are built the same as the rest of the complex so unless you tell your neighbors no one knows which are the BMR units.
- I really love my little duplex. I have a garden space right off the living room and charming environment. In general I'm very satisfied and grateful to have this place.
- If not for this program, it would be impossible for me to pay the rent in order to live in this neighborhood.
- no
- Office staff is informative, responsible.
- The program allows me an affordable place to reside without what could have been long job related commutes.
- staff: understanding and considerate.
- no
- communication with people in BMR office was always pleasant and staff always helpful
- Yes, the complex is wheelchair accessible throughout the entire grounds.
- Very good program.
- This doubtless is the only way I could continue to live in Palo Alto and thus be near my work (with a low-salary non-profit) and my friends.
- made it possible to live near where I worked! and to maintain my community of friends
- convenient location of my complex BMR personnel have been very helpful
- Received immediate help/information that I needed for a divorce. That meant a great deal when I was going through a very stressful time. - There have been some meetings of late that I would like to attend, but these informative meetings were held when I was away.
- It has been a terrific opportunity for our family to have affordable housing in the community where my wife teaches
- Living in Palo Alto has provided my children access to excellent schooling.
- I am waiting since 1993 for 3 bedroom house. I wish and pray it will soon come.
- Opportunity to own a home
- NO
- The BMR program enabled me to buy the unit, otherwise I would have been able to purchase a condo.
- The BMR staff at the office is always friendly and helpful whenever we need their assistance. Also the presentation meeting recently was interesting. The printouts in the binders is a great tool.
- It was a real break.
- low property taxes
- In Birch Court, although I would have been happier with more BMR units, I appreciated the fact that there is mixed income among owners.
- update meetings, responsiveness of BMR people to questions
- PAHC did a good job of informing at time of purchase.
- The program allows the BMR people to live in decent neighborhoods, where on our own, we couldn't.

- Complex not family friendly. The ability to reapply for a more spacious home. Overall paperwork not too overwhelming.
- nothing. I enjoy where I'm at.
- A wonderful opportunity for my family. We waited a long time and appreciate our home every day.
- I feel extremely safe here and like to have the freedom to redecorate, etc.
- affordability and security of having a roof over one's head and not being afraid to become homeless. Affordable housing is a human right, not a vehicle of speculation and huge profits for the rich.
- The owners forum
- I am so grateful that it exists!
- When I called the office to inquire about refinancing my BMR unit, they were very helpful and gave me information on who I should contact, what lending institutions will work with me, etc.
- It saved my life - being an older single woman and limited funds - my future was bleak when prices and rents skyrocketed.
- Overall, enabled us to live in and attend Palo Alto schools.
- Just getting a BMR. I love it.
- A humane way to have a roof over our heads, in a "normal" neighborhood. A great program!
- Owning property in Palo Alto and having my children attend the PA school system. Owning my home has given me stability and the opportunity to continue to live and work in Palo Alto. It has also enabled me to feel secure about my future retirement since I have completely paid the mortgage two years ago and can now prepare for the other aspects of retirement. BMR ownership has given me and my children a wonderful quality of life and secured our futures. My children are successful professionals and I have enjoyed the privilege of living and working in Palo Alto. I am also part of a lovely community of homeowners. I am respected and loved because I did all of this as a single parent. I was able to educate my children and I am able to spoil my grandchildren. My children are confident that I am also well prepared for my future. Thank you for this wonderful program.
- I love owning my own home! Fundamentally, the BMR program is a fantastic opportunity, yet I will continue this under 19 [forthcoming question].
- The Price of the unit
- Thank you for having the BMR Program. It has brought (owning a home) the most special thing into my life, outside of my family.

Are there aspects of the BMR Program you would recommend changing?

- It would be nice if I could give up my unit and get a larger one since my family size changed. But I'm just in line with everyone else on the list - no advantages.
- I would recommend changing the method for calculating the resale price and appreciation. The purchase price for my BMR was 1/2 that of the market price at the time I purchased - I bought for $33 K, market price for my condo was $66 K. However, my BMR is only worth 1/5 of the market price for my condo - $110 vs. $550 K today. This is extremely inequitable considering the regular mortgage payments I have been making since purchase as well as the homeowners dues and assessments, which have never been reduced or below market rate. At this exchange, I could never afford to sell and purchase another home of any type in this area or neighboring ones. Thereby freeing my unit up for others in the "market."
- To be more aware of association fees and their potential to increase a lot.

- not to my experience
- I wish the final ownership can be much sooner than 59 ? years.
- More advice and time given for financing. We were rushed through the process which in turn did not allow us to shop for better deal. Other units offered for sale had microscopic size rooms, windowless kitchen, etc. I do not know if this can or has been changed but those units were [not?] suited to live in. We are very satisfied with our place but in our experience very few were acceptable.
- I felt I had no option to negotiate any price and whatever the price fixed was it. However, the unit needs A LOT of work and things were breaking left and right and I would have to fix them, and I'm going more into debt. Help on home improvements, property taxes, and maybe homeowner association fees would help. Also, lower the closing costs.
- Be more clear regarding your policies.
- Not at this time.
- Since the newer BMR owners are paying more for their units and holding professions in the city such as policeman, firefighter, etc they will be looking to protect themselves in the future regarding probate of their wills and property. The BMR program should allow these units to be put into a trust to avoid probate with the proviso already established that it is sold back to the city. We are just as sophisticated financially as those who are not in BMR properties. The BMR program would change its "philosophy" regarding this or make a serious effort to remedy the problem.
- Rules not applied equally to everyone. Some owners were allowed to convert BMR units to market value when no eligible buyer was found. One owner allowed to buy 1 BMR and 1 market value and convert into 1 market rate unit.
- In most homeowner situations, the home appreciates when upgrades are done and the home is maintained properly. With the BMR program there is no motivation to improve or maintain home due to the formula for establishing the selling price. Extra cash would serve the homeowner best at the bank in a CD. The formula carries heavy depreciation penalties and minimal appreciation. My BMR property purchased in 1985 has gone from $102K to $138K. Homes in my neighborhood have increased from $600K to $2M. The disparity causes BMR owners to feel out of place in the neighborhood. I think condos would be a better choice for the program as it would be transparent to the neighbors.
- I have significant concerns and perhaps will call or write a letter to add to this survey.
- No
- More in the sale of our place.
- I'm not happy with all of our neighbors treating us like we are low income, our place was given the cheapest cabinets, doors, no electrical and still not up to code due to us being a BMR.
- don't know
- No
- I would suggest it be made mandatory that the homeowners attend board meetings long enough to understand the business side of the homeowners association. Having served 3 1/2 years as a board member and will serve again this year and 18 years on committees I have found it very valuable in many respects.
- Perhaps elderly people should be allowed to take a lodger for company or help.
- Raise resale value so we could move, and it would be more fair.
- yes (no details)
- More contact with the housing authority.
- Remind homeowners who work on their own units to pay themselves so that they are rewarded for their sweat equity when they sell their unit.
- Do not develop commingled residential and commercial properties.

- no
- Own the home in less time than 50 years.
- the increase in value should be more in keeping with reality.
- Annual newsletter from program with contact phone numbers.
- When home-owners' dues increase, I wish that BMR owners would get a discount. Complex needs to upgrade wiring.
- how BMR owners are assessed for overages
- It seemed that single units were at a premium. I waited 14 years on the list before my name came up to view any BMRs. Either relax the living arrangement or don't allow special interest groups to be placed ahead of PA residents already on the list.
- Would like to have some updated information on the rules and how the unit can be left to family members for others? If for health reasons a move is needed, how is this handled?
- A more respectful service for homeowners - upon request or yearly calculate the value (current) for homeowners. Or put the calculation information on the website.
- NO.
- One aspect was how rushed I was through the process of buying - since there was no realtor and I never owned -- all I really knew was what PA Housing Corp staff told me.
- -Either City should inspect all the aspects they list in Exhibit B or clearly communicate that buyers are at risk if they do not hire a home inspector -With the price set, there's no incentive for sellers to make repairs or clean; the buyer can lose the loan if money left in escrow (per my experience) -Should value be depreciated if buying a home with old appliances on the verge of breakdown? - Give a seminar to those on waiting list on buyers responsibility to empower them to make educated decisions, since few hire real estate agents to represent them. I was shocked to receive a blank real estate form only 2 days before the contract meetings and had no idea how to fill it out, or my rights.
- Q16 - don't seem to be any amenities
- On special assessments - have the BMR costs figured on square footage, not per unit.
- I think PAHC should go over CC&Rs and Bylaws with new buyers and explain what they are and what they mean to the buyer. I think this survey should include total of special assessments paid while owning unit.
- Instead of electric heating, the unit should have been built using gas. The winter heating system is very inefficient and expensive on the monthly utility bill. We can never keep the home/unit properly heated.
- Homeowner association dues should be based on amount of resale value of the unit vs. fees based on size and present value of said unit.
- I would educate the buyer re how value is assessed for property tax purposes. I didn't find out until year 12 that the assessor did not know that it was a BMR unit and had been assessing it higher than its BMR value.
- Yes - build buildings of high (at least good) quality. The quality of these buildings is piss-poor.
- would recommend people are advised to upgrade carpeting if at all possible (if new unit) or if carpet being replaced with price subtracted from sale price) Q14/15. While I realize cost of units must be kept low to maintain BMR program, the increase in value seems too low. $22,000 after 16 years.
- updates on laws.
- More information re loan programs/incentives.
- My unit was built for a wheelchair user. But the floors and both front and back porches are not level. If I let go of my wheels and don't lock them, I roll to the other side of the room.
- that they always change the price of the homeowners fee and there should be a low income price for people who can't afford more than what they can pay and not always going up every year!

- -the wait is long to move to top of list -would be nice to get better % on resale
- I would like to have a cat.
- I would like meetings to be at different times. I often work to 7 pm - or at least I would like to be able to get the information passed out at these meetings somehow.
- Allow more appreciation in line with the cost of the mortgage, i.e. to recover the money paid in interest
- Revise to increase appreciation formula
- The relationship between the CPI and the property is wrong and handicaps the owners. There is no incentive to improve property, and little encouragement to do so. Staff doesn't seem to understand the issue.
- There was apparently no "city inspection" of my unit when I bought it. All the electrical appliances have to be replaced, the toilet, a huge special assessment the first year (because the Home Owners Association did not have enough reserve funds). I think a little oversight or help before selling a unit might help. Also, there should be guidelines in preparing your home for sale prior to being able to market it.
- None that I know of.
- No
- There should be some funds for Association fees going up and for the paying of big item. When one buys a BMR money is limited and cannot afford to pay for association fee prices. Especially with salary we make. Special assessments. Being a teacher does not make much money.
- Taxes/monthly dues
- The issue of Trust vs. Will for transferring to the children is not well explained or understood by me. Why is it the way it is?
- Publish annually the waiting list (just the numbers) and update the people on the waiting list so they can make intelligent decisions about either to stay on the waiting list, or try to buy a market value property or move out of the area
- When I moved in 1979, the Market Rate homeowners treated the BMR homeowners with disdain. They believed that we were low income residents and that they had to take care of us at their expense. It has taken many years of my perseverance to convince them otherwise. I did this by educating the residents and serving many times on the Board of Directors in leadership positions. I believe at this time that there is a good relationship between the two classes of ownership. It would have been better to not have made our area separate from the rest of the development and certainly not so different looking. Our area looks like a lower class of residents and creates the "two classes of residents" since we are the "condos" and they are the "market priced" home. Therefore, my recommendation is to blend the BMR units into the area(s) where they are built and to educate the non-BMR homeowners so that they understand the reason for BMR ownership - that a human being's life circumstances has nothing to do with quality of the person.
- We had a bad experience. First, the price we paid was higher than was told to us by the city because of the developer going bankrupt and the bank raising the price. The amenities in the description provided by the city were not accurate (there was no dishwasher). The housing office expressed "regret" but didn't try to do anything about these problems. I don't know how this can be changed, but we have no hope of ever being able to move because of the appreciation formula. As we get older, we find living in a 2-story home is more and more difficult, and there will be a time when we will not be able to stay here because of disability. At that time, we will be stuck. We won't have the investment to afford a new place on a fixed income, nor will there be anything at the same price as this one that we could have a property tax exemption. It frightens me to think of the future.
- Yet, they have not kept up with the changing economy. I am trapped in this system. I can't afford to sell, because with the CPI rate of return, I can't go anywhere in the US and purchase a home. I am stuck in the program until I essentially pay off the loan, marry (second income), or win the

lottery (I don't play), or get a job paying a lot of money (I teach and that will not happen anywhere in the US). Also, homes age, just as people do, and they require up-keep or fixing. That is all fine and expected. What is not expected within the BMR program ownership is that the price to repair the complex is NOT pro-rata in most cases, meaning I pay the SAME amount for my share of the repair as does the largest unit. My unit is 535 sq.ft., the largest unit is 1800-2000sq.ft., 3-4 times larger. And, I don't have the same equity increase as the open market units (the larger units), so my ability to re-finance and recover the cost of the repair upon selling is jeopardized. Also, I pay the same amount of monthly dues as the smallest open-market units, which are larger by 150sq.ft. This means my monthly dues already don't reflect my true pro-rata share, and then to escalate this discrepancy by having the BMR units share equal costs in major repairs is criminal. I know the outcome to my scenario, I helped make the changes via the city council--and I requested this study to up-date the program--bringing it into the 21st century economic times fairness. I know the city kept the CPI low because BMR owners had been benefiting from good economic times in the 80's, and they never went back and re-evaluated the CPI rate again.

- appreciation formula

Improvements to BMR Units

Age of appliances and amenities

	Up to 5 Years	6-10 years	11-15 years	16-20 years	21 Years or more
Paint	64%	13%	16%	6%	1%
Water Heater	55%	16%	18%	7%	5%
Microwave	53%	27%	11%	5%	4%
Garbage Disp	50%	20%	13%	12%	5%
Washer/dryer	48%	25%	14%	13%	5%
Flooring/Carpeting	42%	21%	14%	16%	7%
Dishwasher	41%	18%	13%	20%	9%
Refrigerator	40%	22%	18%	17%	3%
Range	30%	12%	18%	22%	18%
Toilet	27%	12%	17%	23%	21%
Bath fixtures	22%	16%	19%	21%	22%
Kitchen cab & fix	20%	8%	21%	24%	27%
Windows	19%	9%	21%	26%	25%
Bath cabinets	17%	15%	20%	25%	23%
Heating system	12%	5%	21%	31%	31%
Bathtub	12%	10%	20%	29%	29%

Number of improvements by dollar amount

	$500 or less	$501 - $1000	$1001 - $2500	$2501 - $5000	$5001 - $7500	$7501 - $10000	$10001 or more	Total
Asbestos ceiling	1	1	0	1	0	0	0	3
Bathtub	2	3	0	0	0	0	0	5
Heating system	1	0	1	1	2	1	0	6
Windows	1	1	3	4	1	1	0	11
Bathroom cabinets	5	5	2	0	0	0	0	12
Toilet	10	1	2	0	0	0	0	13
Bathroom fixtures	11	4	0	0	0	0	0	15
Kitchen cabinets/fixtures	1	4	3	2	0	2	3	15
Water Heater	8	7	2	0	0	0	0	17
Microwave	21	1	0	0	0	0	0	22
Range	10	9	4	0	0	0	0	23
Paint	9	8	6	3	1	0	2	29
Dishwasher	18	12	0	0	0	0	0	30
Washer/dryer	0	21	10	0	0	0	0	31
Garbage Disposal	32	1	0	0	0	0	0	33
Refrigerator	10	21	5	0	0	1	0	37
Flooring/Carpeting	1	4	15	12	6	1	1	40
Total	141	103	53	23	10	6	6	342

Have you made improvements to any other features of your home? Are there features that need improvement?

- Replaced flooring. Added garage cabinets.
- Washer/dryer broken, dishwasher broken, bath and kitchen remodeled with new counter top and sink/fixtures, new range and hood.
- Added air conditioning 1994 $3,000. New skylights. Repainted several times. (LR: kitchen remodel $20,000, higher than data entry options)
- Almost all blinds were broken when I moved in. I replaced all. However, the curtain needs replacement.
- Upgraded kitchen flooring and cabinets and drawers. New energy efficient windows as needed. Garage cabinets and door opener $1450. Bedroom closet system and mirrored doors $1050. (LR: other small improvements, notes are difficult to read)
- Ceiling fan 2002 $200 Outdoor fences 2003 $2,236 Air conditioner 1990 $380 Front door 2003 $824 Attic insulation 2001 $687 Mirrored doors 1999 $953 Garage door opener 1998 $251
- Window screens 1992 $122 WINDOW BLINDS 1998 $1,172 Closet doors Bedroom door
- iron gate, track lighting, spot lighting
- Patio and arbor $1800
- Replace window shades over time $400 Repaint bathroom 2002 $100 Garage Door springs replaced 2002 $125

- Vertical blinds 2 years old $600 Ceramic tile in bathroom 10 years old $700 Ceiling fan 7 years old $500
- I have added extra shelf in bedroom and outdoor closets and shelves in storage on my deck.
- Interior repainted twice. Roof maintenance repair x2. Termite work done 5-6 years ago. Added a small deck in garden.
- Installed backyard patio and lawn.
- Installed cabinets in bedroom 1995 $300.
- Landscaping, fence improvements/repair needed in 2005-6. Base and crown molding planned for 2005. Deck 1982 $2000. Built in cabinets 1985 $1000.
- New blinds 2003 $500
- New tile in bathroom
- New molding: 2004 $600
- dishwasher broke 2 months after move in 10/97 microwave broke 12/97 garbage disposal broke 6/98 water heater broke 8/98
- improvements made in bathroom fixtures and paint, no date or $ specified
- 1999 - $3,000 kitchen floor tile
- painted kitchen cabinets, built in bookcases
- windows: want to make dual paned
- Washer/dryer: had new vent tubes installed 2002 Flooring/Carpeting: If homeowners vote in March 2005 to change CC&R's to permit owners on all floors to have "floating" hardwood floors. If not, new carpets will be installed. Bathtub sliding glass doors installed by my son in 1990. Toilet seat cover replaced, Dec. 2004, $10 Windows: had screen installed in outside deck to keep pigeons out
- washer/dryer: original, many repairs
- Age of most features stated as "original" [JC: don't know how old unit is] range to be replaced in 1 year - only works sporadically; flooring/carpeting: $2,000 new flooring, $3,000 carpets. Bathroom tile floor - $1,500, new vanity $250. Kitchen: replace lights in 1-2 years. Windows: need new shutters. Paint: repaint in 5 years? Planned: Kitchen wall cut in half to get more counter space: 1-2 years
- flooring/carpeting: carpet 20 years; bathroom/kitchen floor- 1 year, 2003
- Linoleum Floor, 10 years ago, 8/94, $1828 Paint: exterior, 4 years, 6/99-$3,000; interior, 1-1/2 years, 6/03, $3,500
- range and dishwasher: prior owner bought a couple of months before me flooring/carpets: I replaced all flooring except bathrooms, $3,300 Painting: I painted everything
- Heating/cooling: 1989 heat pump, 2004 HVAC Majority of unit rebuilt due to leaks and mold
- Pain in the ass - ceiling heat
- New patio door and new patio flooring - dry rot -HOA paid
- Paint, walls: 7 years, 9-17-97 $250 Paint, interior doors and bathroom ceiling: 26 years, 12-7-00 $389. Heating System: electric, bad placement of wall heater, don't use. Use space heater. Added lattice to patio fence, 5 years, 2-7-99 $554. Fire Extinguisher, 4 years, $32. Garage Door Geni, Replace New: 3-17-00 $104. Smoke Detectors, 23 years, 1-18-01 $65
- carpeting: 17 years old except in living room, replaced 6 years ago. Windows: antiglare coating. Garage door springs: new 2004. Garage door opener: new 2004
- kitchen counters and both bathroom linoleums - 6/01 - replaced tile to new - $800
- A/C in living room: 8 years old. Added back deck 1984 - $2,000. Opened wall between dining room and kitchen about 1980-$2,500
- Doors need painting. Water Heater 4 times in 2 years, outside Larger washer/dryer space for twin washers needed. Microwave: not in unit at time of purchase.

- Refrigerator too small. bought in a large one, using other one in garage. Oven gets too hot, burns everything. Dryer inoperable, takes too long to dry clothes. Planning full kitchen and bath upgrade
- kitchen cabinet and fixtures: such poor quality should have been replaced after 1 year
- Windows: some replaced by association who sued developer - defects 11 years ago. Paint: 10 years ago, part of unit painted by association
- windows: some replaced as part of lawsuit
- awnings, 2 years old, $1,500 in 2002. Blinds, 6 years old, $1,500 in 1998
- windows need insulation
- bathroom: replaced light and painted 2 years ago. Kitchen cabinets and fixtures: replaced light and painted/trimmed out cabinets 2 years ago; windows: painted wood trim on windows 1 year ago; Other: added electric fireplace in living room 1 year ago.
- Refrigerator: N/A; Range: Explored in '96 replaced with smooth top; Dishwasher failed in '01 now used as a dish-drying rack; washer/dryer N/A; Microwave N/A; Garbage disposal: Still works fine; Water heater: N/A; Heating System: still works fine: Flooring: Original really sucked replaced w/ tile in 1991; Bathroom: Tile Floor failed. Replaced floor and tiled one wall '04 $400; Kitchen cabinets and fixtures: still good. Windows: As I age, I find it increasingly difficult to open and close the sliding doors. Paint: Original Paint Job not complete. Repainted interior 3 times.
- put in hardwood floor in kitchen and foyer $2,500. Lots of landscaping: trees trimmed, bulbs, lots of perennials $3,000. New track lighting $200. New outdoor fixture $150.
- Outside paint, 8 years old, no cost (dad did it)
- Fence 24 years old needs improvements. Roof 3 years old, work done in 2001
- Several skylights installed 15 years ago. Needs new roof.
- I have painted bathroom cupboards and had light fixture replaced. Replaced the circuit breaker switch; replaced washer and dryer, got my own refrigerator. The wall heating units are probably below standard.
- In the near future, I need to upgrade both bathrooms - tile floors, new fixtures, toilets, and new paint.
- Completely repainted all the rooms and added crown molding, removed the popcorn on the ceilings and had ceilings lights placed. Had two custom build closets done. That is why I listed paint as $10,001 or more.
- New patio surface 1 year old $1100
- Replaced downstairs windows and patio doors within last year. Garage door 1 year.
- Granite 3 yrs old $6,000 LR: Granite countertops?
- Landscape- design made (LR: Pergo flooring downstairs, no $ amount given)
- The quality of the features of my home were adequate at the time. As things failed I replaced them. Unfortunately, as the home ages more work is needed to replace features that are breaking like the bathtub which cracked. I am told that this is unusual and most likely poor materials were used in supporting the tub. I am in the process of upgrading the bathroom and will probably have to have dry rot taken care of due to the crack in the bathtub. Also the homeowners association has not taken care of the landscaping in front of my home (a tree died and was not replaced) so I hired a landscape designer and will have the work done at my cost. I submitted the plans to the HOA and I am waiting for approval. I also have severe allergies so I replaced the carpeting in the bedrooms with wood flooring. At some point I will also do living and dining rooms. In previous years, all the wood cabinets have been professionally painted. I put ceramic tile in the bathrooms. The linoleum floor in the kitchen was replaced with a wood floor. The current improvements/replacement costs are coming at a difficult time since I am preparing to retire in a

year with a much smaller portfolio than previous years. However, like any homeowner I like to keep my home in good condition.
- The master bath is not up to code, so we have never been able to use the bathtub/shower, but we can't afford to remodel. Most of the downstairs flooring has been replaced with tile, as was one bathroom (originally carpeting).
- Yes, we improved the entire outside walkway structure at over $20,000.00 each unit. These are the types of problems that the BMR program need to be aware and on-top of. They are devastating to the BMR unit owners, who can't recover or get loans on our low equity as open-market units can do.
- Door/window in living room. Changed carpet in living room for synthetic wood. Asbestos ceiling?

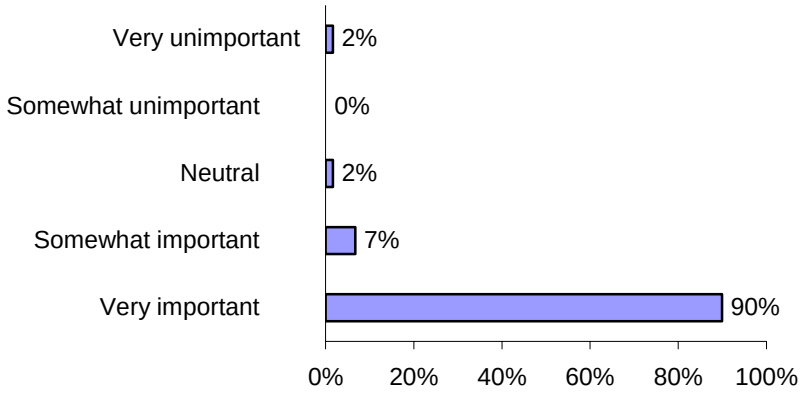
If you have not made improvements to your home, please tell us why:

- Apt was purchased new in 2000
- Property was brand new when purchased.
- Many (?) were needed due to very low quality of workmanship and low quality materials. We cannot afford to fix all problems.
- In addition to carpeting, I installed blinds in all the windows and sunscreen on the patio door. This summer I will install a screen door. The others will wait until I can afford them.
- I have a lot of improvements that need to be done. I'm getting more into debt trying to pay for repairs. Unit was in bad shape.
- cannot afford
- Time to make plan to remodel bathroom to make it compatible with senior citizen living- i.e. higher toilet, step in shower, rails, pull out shelves. Also need to find suitable vendor and or contractor.
- no need
- I have stopped making improvements when I learned how they were depreciated in the formula for setting the selling price. Up until that time I had made est $20K in improvements.
- not completely satisfied complex and am considering leaving it.
- Not as many as needed. Loss of spouse's income due to illness has caused financial difficulty.
- Can not afford all of the improvements.
- Save the money first then do the work. I do not wish to go into debt.
- I have made improvements as needed.
- expense
- The ones not made are because of money and also not knowing what is my responsibility. Vinyl in kitchen pulling up because it was not cut correctly and it is fairly new and put in by HOA.
- Everything else is in great shape.
- Not ready. Need to study more.
- I have not had to make many improvements because I'm not hard on my domicile and am working most of the time.
- We moved in when it was new. We are on a very limited budget.
- cost prohibited
- Everything has remained in very good condition.
- Everything remains well-maintained. My limited budget discourages unnecessary changes.
- No extra money
- Front door cracked and molding loose. Also side door to garage in same condition - not fixed due to reduced income
- everything is still in excellent condition

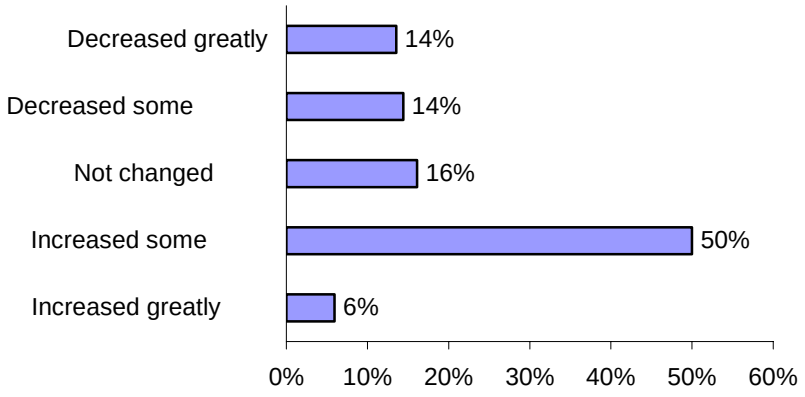
- finance, money
- Deed restrictions say it must be equal to 1% of the purchase price - don't know if it will increase my value.
- I don't know if I am allowed to add rooms.
- I've just paid out $27,000 for 2 special assessments that should have been pro-rated for BMR units but the HOA made us pay full price!
- some carpet = financial kitchen floor = financial
- not enough money
- My unit needed many repairs -- all new appliances and carpet and paint -- some of which I have undertaken. I would like to renovate the bathrooms completely but cannot afford to do so.
- They have not been needed. I would like to replace the kitchen counters but can't afford to.
- Just moved in, can't afford it yet.
- We take very good care of what we have.
- Other improvements planned are: - replace kitchen floor - replace microwave (not part of apartment's appliances)
- carpet - cost and trouble of moving furniture. All - cost
- $
- Financial mainly - we do it slowly and do as much of the work ourselves - get multiple bids for work we cannot do.
- We like our home as it is, and don't feel compelled to make changes when things still function.
- house improvements are costly. I repaired things that were in need of repair, not for cosmetic reasons. We were told not to make expensive improvements.
- Limited funds
- The improvements I am making slowly and in order or priority. The utilities, home owner fees & special assessment, mortgage interest, and everything else, except my income has gone up in price. I am in the process of replacing hot water heater and toilet soon.
- Financially unable until now.
- procrastinator, b) lack of money, & c) there's still some wear left in almost everything (except the garbage disposal)
- Will replace as needed & money available.
- Cannot afford to do more at this time. Did not get salary increase for last two years. No funds in schools.
- too costly
- need budget
- As stated in 21, we can't afford to do the master bath and bring it up to code.
- Money! The bathroom windows are a construction defect and they ALL (in every single unit regardless of cost) dry-rot out and need replacing at the homeowner's cost. My bathroom needs repair (before I purchased it from the previous BMR owner) at a cost over $10,000.00. Additionally, we just paid $20k (mandatory) to repair the walkways.
- Some are expensive, if they are taken care of they still are subject to the depreciation formula.

Financial Situation of Homeowners

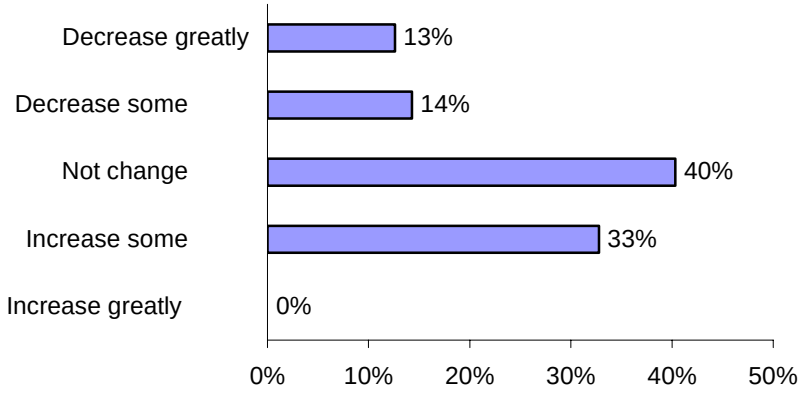
Was price important to you when you decided to buy your BMR home?



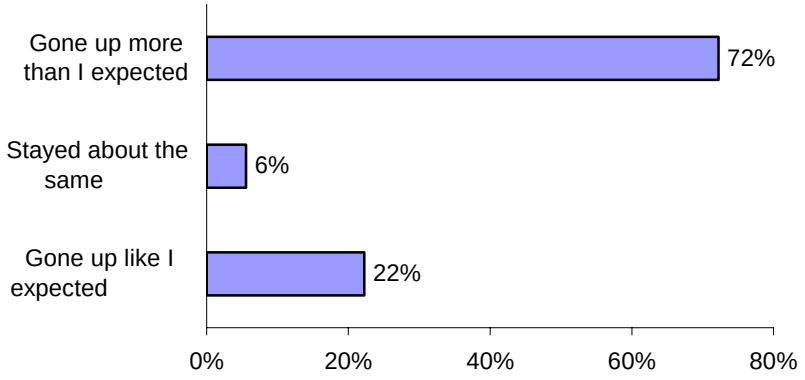
Has your household income changed significantly since you bought your home?



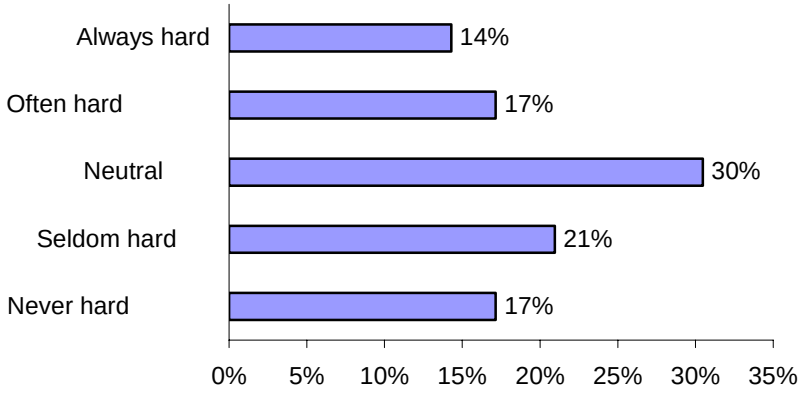
In the next five years, how do you expect your household income to change?



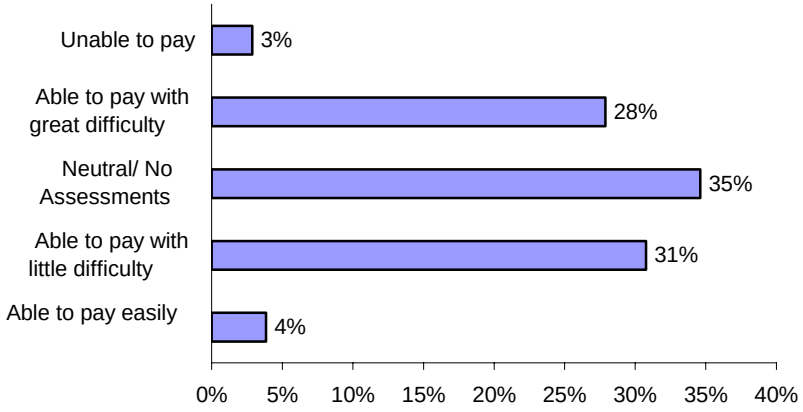
How have your Home Owners Association dues gone up compared to your expectations when you bought your home?



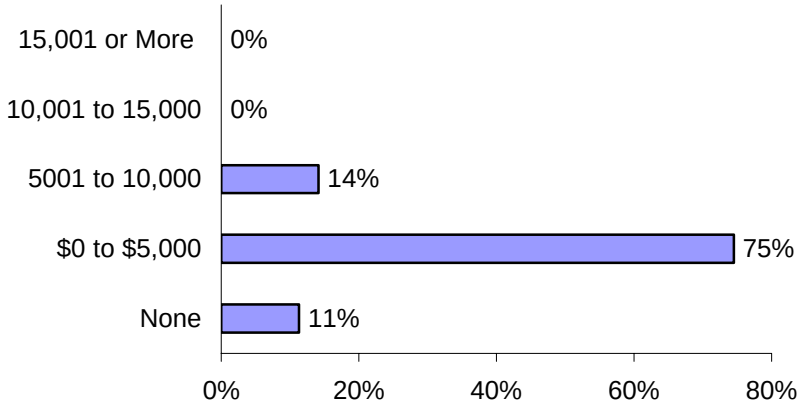
Is it hard for you to pay your monthly Home Owners Association dues?



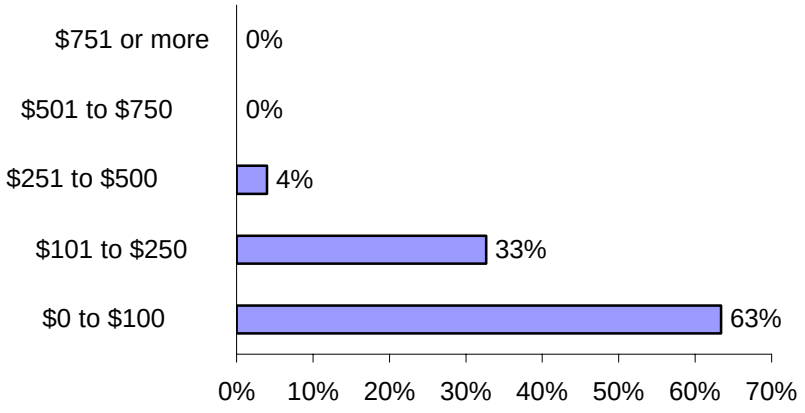
Have you had trouble paying Special Assessments made by the Home Owners Association?



If your Home Owners Association proposed a large assessment, what's the most you could afford comfortably without causing great hardship?



If you had to pay a Special Assessment in monthly payments, what is the most you could afford?



Have you refinanced your original mortgage you used to purchase the home?

	Response Total	Percent
Yes	58	50.4%
No	57	49.6%

If Yes, how many times have you refinanced and in what years?

Six owners reported that they have refinanced three times or more:

- 4 times: 2003, 2001, 2000, 199? 4.875%
- 3 times 7.5%
- 3 x 1991, 1995, 2003
- Three times: 1992, 1996, 1998 Interest rate: 5.4%
- 3 times - latest in 2004 current interest rate: 5.37%
- Three: 1981, 1990 and 1986 - son had a lot of medical and mental problems.

Two times

- 2 times current interest rate 6.875%
- twice: 12-18-89 at APR 9.9, 11-9-93 at APR 7.1, Current 6.9%
- 2 times 1990 or so
- 2 x approx 2001 and 2004 6.0%
- twice interest rate 5-1/3%
- twice
- twice, in the past 10 years.
- twice: 2003, 1993 interest rate: 4.5%
- Twice. Both recently to pay for large assessment, then to get a lower rate due to great low interest rates in over fifty years.
- Twice
- Twice
- twice: 1994, 2004 interest rate: 6.5%
- twice, 1987, 1991
- I have refinanced approximately 2 times. I don't remember what year except that when I first got my mortgage it was 11%.
- 2 x

One time

- once, about 3 years after purchase. (1984)
- once, 1990s
- one time
- once, Jan 2003 5.4% adjustable
- one time in 2002 4.25%
- 1 time to reduce mortgage. 7.75%

- once 2002 5.5%
- one time in 2004
- once- 1992
- once, 2001 6.25%
- once in 2001 5.38%
- One time in 2002 6.25%
- equity line 1 time for $8000 assessment in 2002
- once 11/2003
- 1 time in 1995
- once, 2003
- 1998
- once, ca. 1990 interest rate: 8.25%
- once in 1993 current interest: 6-5/8%
- once in 1985
- once, can't remember
- once, 2002 interest rate 6.5%
- once and then I paid it off a few years ago.
- 1 in 2000, haven't refinanced more because of tax complication. current interest: 8.25%
- once, 12 years ago
- 1 time 5.25%
- once, approximately 1988
- Once, 1982
- 1 x in 2003 5%
- 1 x in 2002 4.125%
- 6.5 %
- once, I don't recall when - maybe 8 years ago?

If you have not refinanced, why not?

- mortgage is paid off
- unemployed
- I've had the home only 6 months
- No experience, should have, did make a few extra payments. I did pay the mortgage off 4 years early in 2002.
- variable mortgage rates went down during life of loan- mortgage has been paid
- no mortgage
- no need
- No need
- too busy with other things
- financial institutions don't refinance small amount. and also we were satisfied with our institution.
- No need
- Mortgage paid off

- With my mortgage and deed restriction it isn't possible
- Was told that it was too close to pay off to save anything in refinancing
- only bought 1+ years ago
- selling unit 2004
- I just paid my last monthly meeting payment (only 15 years meeting)
- too confusing
- totally paid
- still trying to settle in, haven't given it much thought
- ARM
- special loan program
- Mortgage was forgiven when bonds matures.
- paid
- Before retiring I paid off the mortgage.
- mine is an ARM- has always been great!
- no appreciation
- I own it.
- I didn't know I could. I seem to have a great loan (but it is adjustable).
- I plan to refinance in the near future.
- procrastination, b) rate not too bad
- Mortgage paid off some years ago
- Would like to, but not feasible at this time.
- with low rate
- I have a good rate
- Interest is low already
- we were not approved.
- Would like to refinance, but can’t. Banks are not interested in making loans for amounts under $50,000.

What is the current interest rate on your mortgage?

- Around 2 %
- 4 %
- 4 %
- 4.5 %
- 4.6 %
- 4.75 %
- 5.5 %
- 5.5 %
- 5.75 %
- 6 %
- About 6 %
- 6.25 %
- 6.25 %
- 6.33 %
- 6.5 %
- 6.5 %
- 6.75 %
- 6.875 %
- 7 %
- 7 %
- 7 %
- 7.25 %
- 7.25 %
- 7.25 %
- 7.5 %
- 7.5 %
- 8 %
- 9 %
- 9.5 %
- 10.25%

Do you have an equity line of credit loan on your home?

	Response Total	Percent
Yes	16	14%
No	97	86%

If yes, what is the amount?

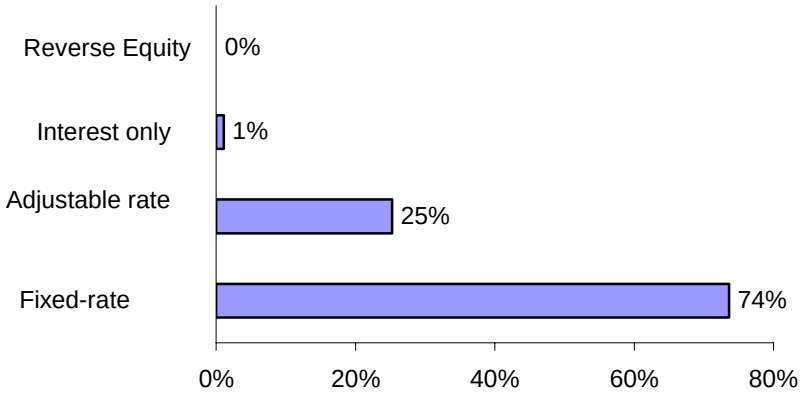
$65,000
$76,000
$65,000
$125,000
$40,000
$25,000
$6,000
$30,000
$124,000
not using
$50
I haven't used it yet, but it is $50k
$18,000

What is the total balance due on all loans on your home?

Twenty-four (24) respondents reported that they do not have a current balance.

$9,280
$10,446.25
$24,500
$25,000
$29,000
$32,969.44
$33,000.00
$35,931.58
$37,000
$39,000
$40,000
$42,000
$45,000
$45,000
$45,311.51
$46,000
$47,000
$48,000
$48,300
$50,000
$50,000
$52,404
$56,000
$56,390
$57,000
$59,000 approx
$59,416
$60,000
$64,000
$65,000
$65,000
$65,000 approx
$68,000
$68,000
$73,018.23
$76,000
$78,000
$80,000 approx
$84,000
$85,350
$90,000
$91,334
$93,000
$94,000
$95,000
$96,000
$98,000
$108,000
$109,000
$110,000
$119,000
$121,000
$124,000
$125,000
$140,000
$150,000
$155,000
$161,500
$175,000 approx
$222,778
1/2 of original loan
way too much, over the value of the BMR unit

What type of home loan do you have?



Future Plans

Do you have plans to sell your unit?

	Response Total	Percent
No	101	86%
Yes within the year	3	3%
Yes in 2-5 years	14	12%

If Yes, what are your reasons for selling?

- to have a 2 bdrm BMR for myself and my son
- Would like to get into single detached home vs. condo
- move to a 3-bedroom (or larger) BMR unit
- may not move
- I would like to (move). Both the complex and the neighborhood are unlivable and a serious detriment to my health.
- moving out of the area
- dissatisfied with complex
- only if health prevents me from being able to walk up 28 stairs.

- too hard to live upstairs without elevators
- only if I get 3 bedrooms - BMR
- personal, recover special assessments
- move to another state
- My mother went into a nursing home so my sister and I are going to live in the family home.
- larger home (more bedrooms)
- to move into a house
- Association fees and special assessments
- want free-standing home

If Yes, will you:

	Response Total
Purchase a regular (market priced) home in Palo Alto	1
Rent a home in Palo Alto	0
Purchase a regular (market priced) home in another city	3
Rent a home in another city	0
Move in with family	0
Move into senior or assisted care housing	2
Other (details below)	10

Other:

- hope to purchase a 2 bdr BMR in PA
- Hopefully, purchase 3 or 4 bedroom BMR unit
- don't know
- not sure
- My name is back on the housing list for a home with an elevator. However with prices of BMR units today I don't think I could afford to move.
- BMR-3 bedroom unit only I can afford
- go back on BMR waiting List and buy a different unit
- move into family home because my mother went into a nursing home.
- hope to purchase another BMR in Palo Alto, otherwise I will have to rent.
- Move out of area

Do you have any additional comments on the BMR Program?

- Raise too low. Yes. But next buyer can pay low. So raising should not be high. so I do not know how, So live in forever! (LR: typed in as written)
- EXCELLENT by given the opportunity to work and live in the community I like
- Resale value could be better and ownership should be sooner or allow rental.
- Great and very helpful program for those who can not afford to live and work here in Palo Alto. It certainly gave us future. If there is anything we can do to support the program we will be more

than happy to do it. Unfortunately, we can not help the program financially until our financial situation improves. Thank you for your hard work.

- It's an excellent program, highly needed.
- I think HOA should be exempt for BMR units, however if this occurred then the interior of the unit should have an improvement plan and if you don't make enough money then be exempt or sliding scale.
- This program has been and is the greatest gift in my life. I am so grateful for the security and pride of ownership. I was a single parent (my husband was mentally ill). I also suffer from depression. I'm not sure I would have managed without the help. Both of my children graduated from college. I am their rock, this unit is mine.
- I feel fortunate to live in such a wonderful home.
- I have had chronic major and minor problems since I moved into my unit in 1984. Some of the problems have been so serious that they have had a permanent damaging effect on my health. The unit I live in is no longer affordable housing due to substantial increases in homeowners fees. The homeowners association, particularly Peter Hollard and Eric Fordes (a former resident) have played a very negative role in my relationship to the HOA and in the handling of problems I have had to deal with. Both the city and the Palo Alto Housing (corp) Assoc. have essentially taken a position of indifference to issues and problems brought to their attention. They have been of no assistance whatsoever. If I could move I wouldn’t hesitate to do so but as a disabled, low income resident I am in no position to do that. I believe there has been a pattern of discriminatory conduct by the HOA, particularly Peter Hollard, towards me for years. I would like to suggest that the BMR program or condos in general be included in the city’s mandatory mediation program which exists for renters. (LR: The handwriting was difficult to read. I have transcribed as best as I can, but there may be errors.)
- Owners should be able to rent out units-i.e. during sabbatical. The BMR should be paid at least to keep up with inflation not at a fraction of inflation rate. When unit was purchased the difference between BMR and market rate was only $10,000 to $20,000 difference. Now the difference is over $250,000. This does not seem right.
- I wish the program could be used as a stepping stone for getting into market priced homes. This would benefit the program by having greater turn over of units as well as helping owners get into market priced homes. The formula for establishing selling price needs to be reviewed.
- no
- Keep up the good work!
- A friend of mine had a BMR home and when she sold it she received all of the monies...the program has changed and I will receive only 1/3.
- see attachment (LR: nothing was attached)
- Thank you for a wonderful opportunity to have a place to live.
- Our condominium complex is well run because we keep up to date with our maintenance. This is very important and needs to be stressed to all new homeowners.
- Great loss to me financially. (LR: from other questions):Had I moved to Mt. View, to a private condo, I'd be much better off today. Can't afford to move now.
- According to my papers equity should be better than 33% and what we paid (LR:?) for it (equity went up more than 300% for the last 18 years.)
- It seems the BMR units are not kept clean outside of units and carport area. Outside of windows never been washed since built and can't be reached. I had a professional do my unit because it was so bad.
- I think it's a great program. People like me need to be able to afford to live here to make Palo Alto a better place for everyone.
- Wonderful program! I'll be forever thankful for the program, allowing me to have the security of being a homeowner in a lovely city and in a lovely home.

- We are so thankful for this program. We thank you.
- I'm 70- and I intend this to be my lifetime home.
- I'm a teacher and a single mother. I have a good education and have had jobs which require my degrees, but I could never have bought anything near my jobs on my salary. Furthermore, in 1997 the rents rose dramatically in this whole area just as I was able to purchase this BMR. This home meant I could stay in Palo Alto where I had lived for years and I could help my daughter go to college because the house payment was the same as the rent I had been paying. I had applied to get into Webster Woods, but was never called after eleven years on the list. I am very grateful for my home. Kate Miles 12/05 PS I am sorry if you are receiving this later than you wanted, but I didn't have time for this until after the holidays.
- I appreciate the opportunity
- I am very grateful to have a comfortable home, thanks to the BMR program.
- I'm really glad it's here! I was truly wondering if I was going to have to leave PA and family because rent was so high.
- Yes - please provide future surveys at another time of year (not tax time months). The holiday season is a busy time and not the best for surveys. Q27: able to pay with great assessment with great difficulty, have to set aside my own needs for improvements Home owner fees are very expensive and special assessments have been as well. These were not expected to be so expensive.
- Q16: Satisfied with neighborhood. Complex has very little privacy i.e. hear others in their apartments, smells come through from 1 apt to another. Q27: There was a major $35,000 assessment but it was rolled into sales price.
- Great class for owners in 2004. Special assessment over $10,00 - big impact financially
- HOA dues went up due to the walkway replacement and bad management. Next year monthly HOA due will equal my mortgage payments! Q27, trouble paying Special Assessments: bad management by board at HOA. If I sell, move to care for elderly parent. (JC)
- This complex has had 3 special assessments in 5 years totaling approx. $20-21,000 per unit. Currently paying 5 years of special assessment payments of $251-$500 - 2-1/2 years paid A brochure on what needs to be done @ time of selling the unit. A meeting (PAHC) was cancelled that would have covered this. Written information would be appreciated and keep it updated.
- Other things that should be done in units: smoke detectors; cleaning fireplaces (prof.) regularly; cleaning (prof.) dryer vents; fire ext.
- I would move into senior or assisted care housing only if necessary
- In 1976 purchase association dues were $75.00. January 2005 Association dues will be $406.00. It is my belief that BMR and the Home Owners Board Association should worker closer together in establishing rules and regulations for home owners especially renters. Any person/s applying for BMR loans should be closely scrutinized for: 1) knowledge of community common areas 2) sensitive to those love or own pets 3) more than 2 cars 4)upkeep of area
- I think it's great!
- interest rate 6.25%. We had assessment 2 years ago of $8,825 - had to take out of 401K and pay penalty and taxes.
- I am grateful that this program is available! HOA dues extremely high considering lack of amenities - no common areas, very small parking area, no pool, no play area for the kids - $331.68.
- 4.25% interest rate
- THANK YOU!
- We approve of it!

- This was a lifesaver for my family - my husband died age 44 4 years after we moved in. There would be no way I could have stayed here to keep my job and offer stability for my 2 children's schools, home and friends.
- It is a fantastic, wonderful program. It should be available for more units as the cost of housing is so high.
- It is excellent. It just is too limited, however. and every year becomes less available to a growing number of people.
- My income was greatly reduced while I was out from work for almost two years while being treated for breast cancer. Times were very hard financially. My long-term disability benefits, were significantly reduced by great numbers of medical co-pays (treatment and doctor visits and prescriptions), and self-pay of all of my employment benefits (including very expensive health insurance premiums for both my child and myself) that are usually paid by my employer. Had we not had affordable housing at that time, we very likely would have been unhoused. Ownership of affordable housing is something I count myself blessed for almost every day. We are able to live, work, study (Jordan M.S.), and build community in Palo Alto. My child has benefited from the bounty that living in Palo Alto brings (schools, programs, parks, music education, coaches, etc.). I've always taken great comfort that while I am at work my child is close by; something that wouldn't be possible if I was paying market rate for housing.
- It is a great idea. I think that more realistic financial formulas would make it stronger and give more incentive to the owners and probably allow the program to increase in size. Finance today is not what it was in the 70's.
- Just very grateful it exists. I now have two kids in college and without the security of having a place to live close to work and school--I don't know where we would be now. THANK YOU SO MUCH!
- No more comments at this time. We love our unit.
- Comments from financial situation section: No problem paying them [HOA dues]...but that's money not going into (for instance) remodeling [About Special Assessments] for about a year I didn't spend money on anything but necessities.
- Very glad it's available
- I appreciate very much that it exists.
- I support the BMR program highly because without it I would not be able to own a condo in Palo Alto. But (some?) consideration should be given to raising association fees and assessments especially for BMR owners. Tk.
- I would like to see a report that shows the appreciated value of my home. I would like to get this report every few years - it helps to know the value since at some point I might do a reverse mortgage if needed during my retirement. Thank you.
- It would be very helpful if people who can no longer live in their unit due to disability could "transfer" to a more accessible unit when needed. It would take a great fear off my mind if I knew that I would have place to live in the future.
- Yes, I believe the city should carry a city loan program for the BMR units for large assessments that EVERYONE can qualify for, not with 40 different qualifications that only two unit owners can qualify for, and then the city ran out of money and those two people (at my complex) didn't get city help. And, I was the one that asked for the program, not the people from the complexes that actually received help. Which in the end shows that there is a HUGH problem with construction defects--large assessments--within these complexes and the BMR units are subject to unfair (disproportional) costs which jeopardizes many BMR homeowners. There's more.
- Yes, My comments is that I wish that more BMR units could be offered for sale. Otherwise, other people like me would never be able to afford to live in Palo Alto. Thanks

Optional Section with Personal Information

Household Size and Income

	1 Person in my household	2 People in my household	3 People in my household	4 People in my household	5 People in my household		Response Total
Under $22000	15	4	2	1	0		22
$22001 to $25000	3	1	0	1	0		5
$25001 to $28000	5	2	0	0	0		7
$28001 to $32000	3	0	0	0	0		3
$32001 to $34000	2	0	0	0	0		2
$34001 to $37000	2	0	1	0	0		3
$37001 to $42000	4	1	2	1	1		9
$42001 to $47000	4	1	4	0	0		9
$47001 to $53000	2	3	3	2	0		10
$53001 to $57000	1	0	0	1	0		2
$57001 to $59000	0	1	1	1	0		3
$59001 to $65000	0	1	2	1	0		4
$65001 to $68000	0	0	1	1	1		3
$68001 to $70000	0	3	0	0	0		3
$70001 to $76000	3	0	1	0	1		5
$76001 to $85000	0	1	0	0	0		1
$85001 to $91000	1	0	0	0	0		1
$91001 to $98000	0	1	0	0	0		1
$98001 to $105000	0	0	0	0	0		0
$105001 to $112000	1	0	1	0	0		2
More than $112001	0	0	2	0	0		2
Total	46	19	20	9	3		97

Household Income Sources: (Mark more than one if necessary)

	Response Total	Percent*
Salary or Hourly wage	68	68%
Commission	1	1%
Self employed	9	9%
Pension, Social Security or Annuities	37	37%
Permanent Disability	6	6%
Unemployment or Temporary Disability	3	3%
Family	3	3%
Child support or Alimony	4	4%
Other (please specify)	1	1%

* Does not add up to 100% because respondents were allowed to mark more than one source

Marital Status:

	Response Total	Percent
Married	31	39%
Separated	0	0%
Unmarried / Single	17	22%
Divorced	26	33%
Widowed	5	6%

Employment Status:

	Response Total	Percent
Employed full-time	51	58%
Employed part-time	6	7%
Self-Employed	3	3%
Retired	20	23%
Disabled not working	4	5%
Unemployed	2	2%
Student/Other status	1	1%
Employed with more than one job	1	1%

Appendix A: Inventory of BMR Units

City of Palo Alto Below Market Rate (BMR) Housing Program Inventory of Homeownership Units as of September 1, 2005				
Development Name	**Year First Sold**	**BMR Units**	**Market Rate Units**	**Substantial Assessment**
Foothill Green	1975	4		
Villas de San Alma	1975	8	26	March 1991 $4507
Greenhouse I	1975,1983,1987	14	126	
Greenhouse II	1976	10	78	
Channing Place	1976	2	24	
410 Sheridan	1977	5	50	
Villas de la Plazas	1978	4	34	
Vista Townhouses	1979	2	24	
San Antonio Village	1979	2	38	
Barron Square	1979	6	24	Sep 2002 $8,826.25 each
Palo Alto Greens	1981	4	45	
Colorado Place	1981	2	20	
Palo Alto Redwoods	1983	12	105	2001: $4,080 each 2002: $13,675 each 2003: $2,250 each

City of Palo Alto Below Market Rate (BMR) Housing Program Inventory of Homeownership Units as of September 1, 2005				
Development Name	**Year First Sold**	**BMR Units**	**Market Rate Units**	**Substantial Assessment**
Oregon Green (off site)	1984	1	91	
Birch Court - BMR Units Birch Court - Discount Units	1984	5 17	18	
Palo Alto Central	1984	7	60	
Loma Verde Village	1985	4	35	
Loma Verde Townhomes	1985	2	25	
Channing Court	1985	1	9	
Ashby Duplex	1985	2		
Abitare	1985	9	35	June 2002 $21,806 - $26,409 each
Ortega Duplex	1986	2		
Talisman Duplex	1987	2		
Bautista Duplex	1987	2		
The Hamlet	1988	6	48	2003 $11,900 - $17,434 each
Terrace Bay Homes	1988	2	22	
The Rosewalk	1988	4	44	
Ramona Courts	1989	1	9	

City of Palo Alto Below Market Rate (BMR) Housing Program Inventory of Homeownership Units as of September 1, 2005				
Development Name	**Year First Sold**	**BMR Units**	**Market Rate Units**	**Substantial Assessment**
Charleston Village	1990	2	30	
Christensen Court	1992	1	11	
Camino Place	1992	4	26	
Spanish Villas	1993	1	8	
Jacobs Court	1993	3	16	
Promenade	1994	7	67	
Bryant Court	1997	1	12	
Silverwood	1999	3	32	
Classics at Barron Park	2000	4	22	
Wisteria	2000	1	11	

Appendix B: Homeowner Survey

CITY OF PALO ALTO
BELOW MARKET RATE HOUSING PROGRAM
HOMEOWNER SURVEY

How many people live in your home? Please indicate their relationship to the owner.

Occupant	Age	Relationship to Owner
#1 Owner		
#2		
#3		
#4		
#5		
#6		
#7		

1. **Total number of persons residing in the unit: _____**

2. **Does a member of your household have a physical disability?** Yes No

3. **What year did you move into your BMR unit? _____**

4. **If the City of Palo Alto BMR Program had not been available when you bought your home, would you have:**
   - ❑ Stayed in Palo Alto and bought a regular (market priced) home
   - ❑ Stayed in Palo Alto and lived in a rental home
   - ❑ Moved out of Palo Alto and bought a regular (market priced) home in another city
   - ❑ Moved out of Palo Alto and lived in a rental home in another city
   - ❑ Other: _____

5. **When you purchased your home, did you: (mark more than one if necessary)**
   - ❑ Lived and Worked in Palo Alto
   - ❑ Lived in Palo Alto
   - ❑ Worked in Palo Alto
   - ❑ Lived Elsewhere (please specify:_____)
   - ❑ Worked Elsewhere (please specify:_____)

We would like to understand how well you know your rights and responsibilities under the BMR Program. Please circle an answer for each question.

6. Do you know the current resale value of your home under the deed restrictions for your BMR unit?

   Know for sure Know fairly well Know somewhat Don't know at all

7. Do you understand how the resale price and appreciation is calculated under your deed restrictions?

   Know for sure Know fairly well Know somewhat Don't know at all

8. Do you know what you are required to do under the BMR program rules and your deed restrictions if you want to refinance your home?

   Know for sure Know fairly well Know somewhat Don't know at all

9. Do you understand the rules that require that BMR units must be owner-occupied and the rules prohibiting the rental of BMR units?

   Know for sure Know fairly well Know somewhat Don't know at all

10. Do you know how the future sales price of your home will be adjusted if you make improvements?

    Know for sure Know fairly well Know somewhat Don't know at all

11. Overall, how well did you understand the rights and responsibilities of owning a BMR home *when you bought your unit*?

    Knew for sure Knew fairly well Knew somewhat Didn't know at all

12. Comments_____

    _____

    _____

We would like to know how satisfied you are with the BMR Program. Please circle an answer for each question.

13. How satisfied were you with the original purchase price that you paid for your home?

Very Satisfied Satisfied Neutral/No Experience Dissatisfied Very Dissatisfied

14. How satisfied are you with the appreciation formula and resale price?

Very Satisfied Satisfied Neutral/No Experience Dissatisfied Very Dissatisfied

15. How satisfied have you been with your unit (amenities, size, etc.)?

Very Satisfied Satisfied Neutral/No Experience Dissatisfied Very Dissatisfied

16. How satisfied have you been with your complex (or neighborhood if you own a duplex)?

Very Satisfied Satisfied Neutral/No Experience Dissatisfied Very Dissatisfied

17. Are there other aspects of the BMR Program you have been especially happy with?

_____

_____

_____

_____

18. Are there aspects of the BMR Program you would recommend changing?

_____

_____

_____

_____

We would like to understand what types of improvements you have made to your unit and what improvements may be needed but you have not made. Please complete the following chart regarding improvements you have made or would like to make:

Feature	Approximate Age	Improvements Made: Date, Amount	Improvements Planned	Improvements Needed
Appliances Refrigerator Range Dishwasher Washer/Dryer Microwave Garbage Disposal Water Heater				
Heating System				
Flooring/Carpeting				
Asbestos ceilings (if applicable)				
Bathroom cabinets fixtures bathtub toilet				
Kitchen cabinets and fixtures				
Windows				
Paint				
Other				

19. How many bedrooms are in your home? _____

20. How many bathrooms are in your home? _____

21. If you have not made improvements to your home, please tell us why:

_____

_____

_____

We would like to understand some aspects of your financial situation to see if changes might be desirable to keep BMR units affordable, safe, and in good condition Please circle an answer for each question.

22. Was price important to you when you decided to buy your BMR home?

Very important Somewhat important Neutral Somewhat unimportant Very unimportant

23. Has your household income changed significantly since you bought your home?

Increased greatly Increased some Not changed Decreased some Decreased greatly

24. In the next five years, how do you expect your household income to change?

Increase greatly Increase some Not change Decrease some Decrease greatly

25. How have your Home Owners Association dues gone up compared to your expectations when you bought your home?

Gone up like I expected Stayed about the same Gone up more than I expected

26. Is it hard for you to pay your monthly Home Owners Association dues?

Never hard Seldom hard Neutral Often hard Always hard

27. Have you had trouble paying Special Assessments made by the Home Owners Association?

Able to pay easily Able to pay with little difficulty Neutral/ No Assessments Able to pay with great difficulty Unable to pay

28. If your Home Owners Association proposed a large assessment, what's the most you could afford comfortably without causing great hardship?

$0 to $5,000 $5,001 to $10,000 $10,001 to $15,000 $15,001 or More

29. If you had to pay a Special Assessment in monthly payments, what is the most you could afford?

$0 to $100 $101 to $250 $251 to $500 $501 to $750 $751 or more

30. Have you refinanced your original mortgage you used to purchase the home? Yes No

If Yes, how many times have you refinanced and in what years?

_____

If No, why not? _____

What is the current interest rate on your mortgage? _____

_____

31. Do you have an equity line of credit loan on your home?

Yes (Amount $ _____) No

32. What is the total balance due on all loans on your home? (if known)

_____

33. What type of home loan do you have?

Fixed-rate Adjustable rate Interest only Reverse Equity

Future Plans

34. Do you have plans to sell your unit?

No Yes, within the year Yes, in 2-5 years

35. If Yes, what are your reasons for selling?

_____

36. If Yes, will you:

- ❑ Purchase a regular (market priced) home in Palo Alto
- ❑ Rent a home in Palo Alto
- ❑ Purchase a regular (market priced) home in another city
- ❑ Rent a home in another city
- ❑ Move in with family
- ❑ Move into senior or assisted care housing
- ❑ Other: _____

37. Do you have any additional comments on the BMR Program?

_____

_____

We would appreciate knowing more about you to help us design changes in the BMR Program that could make it more successful. The following section is optional and will only be used to help us evaluate if proposed improvements would be effective.

OPTIONAL SECTION

38. Please mark the box that corresponds to the number of people in your household and your household's total gross annual income. Include the income of all household members 18 years old or older.

Income	**Number of People in Your Household**						
	1	**2**	**3**	**4**	**5**	**6**	**7**
Under $22,000							
$22,001 to $25,000							
$25,001 to $28,000							
$28,001 to $32,000							
$32,001 to $34,000							
$34,001 to $37,000							
$37,001 to $42,000							
$42,001 to $47,000							
$47,001 to $53,000							
$53,001 to $57,000							
$57,001 to $59,000							
$59,001 to $65,000							
$65,001 to $68,000							
$68,001 to $70,000							
$70,001 to $76,000							
$76,001 to $85,000							
$85,001 to $91,000							
$91,001 to $98,000							
$98,001 to $105,000							
$105,001 to $112,000							
More than $112,001							

39. Household Income Sources: (Mark more than one if necessary)

- ❑ Salary or Hourly wage
- ❑ Commission
- ❑ Self employed
- ❑ Pension, Social Security, or Annuities
- ❑ Permanent Disability
- ❑ Unemployment or Temporary Disability
- ❑ Family
- ❑ Child support or Alimony

If there is more than one owner of your BMR unit, please provide information about the owner that you consider the <u>head</u> of your household:

40. Marital Status

- ❑ Married
- ❑ Separated
- ❑ Unmarried / Single
- ❑ Divorced
- ❑ Widowed

41. Employment Status:

- ❑ Employed full-time
- ❑ Employed part-time
- ❑ Self-Employed
- ❑ Retired
- ❑ Disabled, Not working
- ❑ Unemployed
- ❑ Student/Other status
- ❑ Employed with more than one job

May we contact you about this survey? Yes No

If Yes,

Owner Name: _____

Daytime Phone: _____

Evening Phone: _____

Cell Phone: _____

Email address: _____

What is the best method and time to contact you? _____

Please send this survey in the enclosed envelope and send the enclosed postcard separately on the same day. Thank you for your participation.

APPENDIX D

City of Palo Alto BMR Program
Summary of City Policy regarding Cost-Based Pricing of BMR Units

Revised November 2004

City of Palo Alto Below Market Rate (BMR) Program
Summary of City Based Policy Regarding Cost-Based Pricing of BMR Units
Revised November 2004

Comprehensive Plan Language From Program H-36 of the Dec. 2002 Housing Element:
"In all cases, the sales price should be sufficient to cover the estimated cost to the developer of constructing the BMR unit, including financing, but excluding land, marketing, off-site improvements and profit."

City Policy Interpretations:

- Estimated Costs of Constructing means the estimated documented hard construction costs of the actual BMR units. Alternatively, the pro-rate share (of construction costs of the BMR units to all the units) based on square footage may be used. If the BMR units will have different interior finishing or lack certain features, such as fireplaces, then the hard construction cost figures need to reflect those cost reductions. The construction costs of foundations are only allowed if the foundation is for a specific BMR unit, such as in a townhouse of detached unit product.

- "Costs" do not include hard and soft costs that the developer would incur whether or not the BMR units were required. The following are examples of disallowed costs with specific exceptions described:
  - Land
  - Demolition
  - Site preparation, site clean-up and excavation
  - Foundation & podium costs in a multi-family project (if a BMR unit is built on its own separate foundation, then the cost of the foundation for the BMR unit is allowed.)
  - Costs allowed for parking spaces within a garage used by the market and BMR units should only be the hard costs for the actual square footage taken up by the spaces to be allocated to the BMR units. The cost of immediately adjoining access areas, such as aisles, serving those parking spaces is also allowed; but allowed costs do not include the common circulation areas of the parking garages such as stairs, elevators and access ramps.
  - Off-site costs
  - Utilities from the public ROW, or within the private streets of a project, to the BMR unit's lot line or to its exterior walls
  - Common areas, circulation and access areas of a project or site such as plazas, lobbies, stairs, elevators, walkways, internal streets and access to parking
  - Common area landscaping, common open spaces and recreation facilities
  - Architecture, engineer, or other consultants fees and other "soft" costs
  - Financing costs prior to start of construction
  - Planning entitlement fees
  - Marketing

- General contractor's overhead, general conditions and profit
- Developer's overhead and profit

- Financing costs during construction are allowed, but they must be prorated based on the allowed costs of the BMR units compared to the total amount of the construction loan.

- Building permits, school and impact fees allocated directly to the BMR units (based on the actual BMR unit square footage) are allowed.

APPENDIX E

Palo Alto BMR Program
Analysis for BMR compliance – Section 6.5.1
Standardized Methodology

APPENDIX E

PALO ALTO BMR PROGRAM
ANALYSIS FOR BMR COMPLIANCE – SECTION 6.5.1
STANDARDIZED METHODOLOGY

Following is a recommended methodology for preparing a customized analysis of the BMR requirement for projects for which more than one BMR on-site unit is required in Palo Alto. Section 6.5.1 describes the generalized approach, methodology and procedure. This Appendix provides more detail on the methodology and examples of applying the methodology to projects.

A four step process is identified in Section 6.5.1 as follows:

1. Market survey of new unit sales prices to estimate market prices
2. Detailed description of the proposed residential project development program
3. BMR sales prices of various size units, per the City's annual calculations
4. BMR compliance analysis

More description of each step is provided below, along with references to other report sections.

1. Market survey of new unit sales prices to estimate market prices

Recorded sales data of multi-family units within a market area is readily obtainable information. Several commercial firms regularly collect and sell data that is widely used by the real estate development industry. For example, the firm Hanley Wood, formerly the Meyers Group, sells reports of sales activity from recently completed multi-family residential projects, indicating the date of the sales period plus full information on the project and the units and sales prices per square foot for each unit, or averaged sales prices for units of the same description. Material from this source is summarized in Section 6.1 of the report.

We recommend assembling sales information from Palo Alto and Menlo Park (to enable a greater number of sales) and establishing a per square foot selling price range. If one or more projects in the survey are highly atypical, it should be eliminated from the survey. A rounded average (to the nearest $25) sales price per square foot figure may be concluded from the review.

In the event of few recent sales within the past year, sales data from prior years going back two to three years should be obtained. Then a sales price adjustment can be applied to correct for the lapse of time. The adjustment can be drawn from a review of sales, or cross checked against the California Association of Realtors monthly survey.

Resale of existing units may also be reviewed for confirmation of the sales range, although the existing units should be relatively neat and in excellent condition to be comparable.

If the developer is willing to share sales projection information, the City may use the developer's information, confirming the reasonableness of the developer's estimates based on the City's own survey.

The developer will be planning for the project and working with the City on BMR compliance well in advance of units being available for sale, by a time period of two to three years. We recommend against a policy of projecting sales prices ahead for a combination of reasons: all projections are speculative and subject to disagreement; BMR obligations are also determined by annual median income levels, determined by H.U.D. and California H.C.D. and cannot be projected with any reliability.

The City could annually do a market survey to serve as a basis for all projects processed within the year, or alternatively, could hire an outside service to prepare the survey. For large or complex projects, a market survey and BMR analysis prepared by an outside service provider could be required as a project expense. The outside service provider would be retained by the City but paid for by the developer, similar to the preparation of an EIR. To reduce time and administrative costs, the City could maintain a list of prequalified providers from which the developer could select a name.

2. Project description and analysis of market sales prices

The developer will provide a description of the project, as is the current procedure, indicating unit descriptions, sizes, square foot area of each unit, parking calculations, etc.

The City will then apply the concluded market sales price per square foot to the units in the project per the project description.

See illustrative examples in the tables following the text.

3. BMR Affordable Prices

The City annually determines BMR unit sales prices, by number of bedrooms based on the HCD median income level, published each spring. The City has an established methodology for the BMR sales price determination, and recently modified the methodology per a recommendation from this BMR Update program, summarized in Section 3.1. These are the BMR sales prices for the BMR units in the project.

The current City policy and Housing Element requires that BMR units be of the same square footage as the market rate units. This provides the basis for estimating the BMR obligation applied to the square foot sizes of the market rate units. As demonstrated in Section 6.2, the BMR sales price per unit usually translate to values in the range of $200 to $250 per square foot.

4. BMR Compliance Analysis

The BMR percentage requirements per Housing Element H-36 are then applied to each unit size, for each affordability level. Fractional unit results should not be rounded to whole units.

The total obligation is expressed both as numbers of units (including fractional units) and total BMR obligation as a dollar amount. For example, the developer might owe 1.35 one-bedroom units, 2.24 two-bedroom/two bath units, another 2.76 two-bedroom/2.5 bath units, etc. for a total of 6.35 units and a total gap calculated at $3 million.

This is the conclusion of the BMR analysis. See examples following for hypothetical Project A and Project B, per the 15% BMR requirement level. The same procedure would be used for the 20% or 25% BMR requirement level.

Negotiation Options

The City and developer could then negotiate any number of alternatives that are equivalent to the dollar amount owed. The material in Section 6.4 illustrates the many equivalencies which can be adapted to the affordability gap structure of each project.

The BMR compliance options for Project A, as indicated in Appendix E, Table2 indicate two of many solutions for delivering the BMR value calculated at $1.9 million. In the first option in the upper half of the table, the City gets 5 units instead of the calculated 2.85 or 3 units, but the units are smaller and more predominantly in the upper moderate category instead of the lower moderate. The second option for Project A, results in only two units instead of 2.85, but the units are all larger at three bedrooms. All the compliance options illustrated for Project A, maintain the City standard of BMR units in identical size as the market rate units.

The BMR compliance options for Project B illustrate how a variation from the existing City policy of identical size units might work. Project B is a 64 unit project that would ordinarily produce 9.6 BMR units. The first option shows how a developer might elect to do larger units but fewer of them. In this example only seven units are provided, but three of them have three bedrooms for larger families. The second option shows more but smaller units and a deficiency which is met by a cash payment for a portion of the obligation not met on site.

Were the City to be desirous of incorporating even more flexibility into the program, the developer might be allowed to deliver even fewer units, but to lower income levels which produce larger gaps.

We believe that more flexibility in the BMR application with a customized approach would benefit both the City and the developer. The City would have more opportunity to achieve larger units or units that meet some other unmet need. The developer would have more flexibility in designing the project around the many regulations and limitations. For example, larger bedroom units but fewer of them might result in a physical solution that works better from the parking perspective, or perhaps the FAR perspective, or some combination of them. Smaller units sometimes fit better in corners or other physical conditions generated by the site configuration or the main target market rate units in the project.

Clearly, the negotiated process will require a back and forth, but with the methodology and analysis clearly understood and presented, the developer ought to be able to propose solutions that are acceptable to the City because they meet the quantified BMR obligation. There may, in fact, be less room for discretion and decision making on the part of the staff than generated by the current application procedure.