



Office of the City Manager

INFORMATION CALENDAR

December 3, 2019

To: Honorable Mayor and Members of the City Council
From: Dee Williams-Ridley, City Manager
Submitted by: Kelly Wallace, Interim Director, Health, Housing & Community Services
Subject: Small Sites Program Update

INTRODUCTION

The City of Berkeley recently executed its first Small Sites Program loan, providing \$950,000 to Bay Area Community Land Trust for the renovation of 1638 Stuart Street. When City Council approved the Small Sites Program in 2018, they directed staff to provide the Housing Advisory Commission and Council with funding applications and staff's analysis. Staff's project review is attached. Due to its length, the Stuart Street Apartments application is available online at <https://www.cityofberkeley.info/ContentDisplay.aspx?id=6532>

CURRENT SITUATION AND ITS EFFECTS

Bay Area Community Land Trust (BACLТ) will use the City funds to renovate eight residential units located at 1638 Stuart Street. The property is owned by the neighboring McGee Avenue Baptist Church, which is leasing the site to BACLТ for the 55 year term of the City's affordability restrictions. BACLТ plans to create a non-equity cooperative, serving households earning up to 80% of the area median income.

The Small Sites Program is a Strategic Plan Priority Project, advancing our goal to create affordable housing and housing support service for our most vulnerable community members.

BACKGROUND

The Small Sites Program was created in 2018 as an over-the-counter application process with projects approved by the City Manager. Small Sites Program proposals do not go to the Housing Advisory Commission or City Council for approval. Instead, projects that meet the program criteria receive funding if funding is available. Council allocated \$1 million to the program, and of that, \$50,000 was granted through a competitive process to Bay Area Community Land Trust to be used for capacity building. The remainder was made available through a Notice of Funding Availability released in January 2019. The City received one application in response to the NOFA. Information about the status of funds and applications is posted online.

ENVIRONMENTAL SUSTAINABILITY

The renovation will include the remediation of lead and asbestos, and will bring eight residential units back into active use after more than 20 years. The property is in a walkable area, within $\frac{3}{4}$ mile of Berkeley Bowl, multiple parks, bus lines, and Ashby BART.

POSSIBLE FUTURE ACTION

HHCS is not accepting applications for the Small Sites Program at this time since no funds are available. Council could refer consideration of Small Sites program funding to the Measure O Bond Oversight Committee.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

The number and size of feasible projects scale with the amount of funds available for this program, so the fiscal impacts will depend on Council's future actions. A significant expansion of funds available for small sites projects may require additional staffing, since the program anticipates an expedited timeline and close staff involvement.

CONTACT PERSON

Jenny Wyant, Community Development Project Coordinator, HHCS, 510-981-5228

Attachments:

1: Project Review Form

Small Sites Program - Project Review

Applicant:	Bay Area Community Land Trust
Project Name:	Stuart Street Apartments
Project Address:	1638 Stuart Street
Funds Requested:	\$950,000

Project Summary:

BACLT proposes to renovate 8 residential units located at 1638 Stuart Street. The property is currently owned by McGee Avenue Baptist Church, and has been vacant for more than 20 years. The buildings are in poor condition, and if they continue to deteriorate beyond the point of repair, current zoning could limit replacement development to two units. BACLT proposes to enter into a 57 year lease with MABC, renovate the property, then rent them to households earning up to 80% of the area median income. If there is sufficient interest amongst the future residents, BACLT intends to operate the property as a non-equity cooperative and encourage as much resident management as possible.

Program Objectives:

Are residents at imminent risk of Ellis Act evictions?	No
Is the property occupied?	No
Do the existing residents include vulnerable populations (i.e. families with minor children, elderly, disabled, and catastrophically-ill persons)? <i>If yes, describe vulnerable population, below.</i>	No
Property is vacant.	
Average AMI of current residents:	n/a
Subsidy per unit:	\$ 118,750
Number of affordable units proposed:	8
Proposed conversion to cooperative?:	Yes

Developer Experience and Capacity

Developer must have completed one comparable project, and have the demonstrated capacity to undertake the proposed project.

BACLT has been involved with several renovations over the past few years, as the developer and co-developer. BACLT had a project management role in two renovations, which had a combined total development cost of \$350,000. BACLT most comparable project was an acquisition and renovation project with a budget of \$1.8 million, which BACLT co-developed with the San Francisco Land Trust.

Stuart Street Apartments

Property Eligibility

Total number of units:	8
Do all residential units meet the City's definition of 'dwelling unit'?	Yes
Is the majority of the property residential?	Yes

Project Scope

Does the proposed renovation meet the health and safety needs of the project?	Yes
Is the renovation scope and budget supported by a physical needs assessment (PNA) of the property?	Yes

Project Budget

Is the proposed City loan leveraged with private financing?	Yes
Is the proposed per unit subsidy under the program limits?	Yes
Is the acquisition price substantiated by an appraisal showing both the fair market value and the anticipated restricted value?	n/a
Are fees charged to the project reasonable?	Yes
Is the developer fee less than the program limit of \$80,000 plus \$10,000 per unit, not to exceed 5% of project costs (excluding the developer fee)?	No. See Exception.
Are construction management fees less than \$25,500?	n/a
Does the renovation budget include state prevailing wage rates?	Yes
Construction contingency (must be 15% or higher)	16%
Soft cost contingency (must be 15% or higher)	15%
Do the reserves comply with the following?	
Operating: 25% of budgeted 1st year operating expenses	25%
Replacement: Greater of \$2,000 per unit or the amount necessary to pay replacement costs for the next 10 years, as specified in the PNA.	Yes - \$16k.
Vacancy: The monthly rent for units (residential and commercial) vacant at acquisition, multiplied by the number of months expected to remain vacant during renovation and lease-up.	No - \$24k reserve, equal to 1.9 months rent

Operating Proforma

Is there a positive cash flow for 15+ years after project completion?	Yes
Do the vacancy rates meet or exceed program requirements (5% residential, 20% commercial)	Yes
Do the reserve deposits comply with the following:	
Operating: None unless balance drops below 25% of prior year's operating expenses	Yes
Replacement: The higher of a) the amount needed according to the approved 20-year PNA, or b) \$400 per unit per year (\$350 per unit for projects with 11+ units)	\$400 pupa

Stuart Street Apartments

Existing Tenants and Affordability

Have 75% of existing households acknowledged their agreement to participate (in the conversion to restricted affordability and cooperative conversion, if applicable)?

n/a

Does the project have an average affordability of 80% of the area median income (AMI)?

Yes - all units at 80%

Do 66% or more of the existing households income-certify, with incomes averaging up to 80% AMI? Up to 34% of households may be over-income (above 120% AMI) or refuse to certify.

n/a

Limited Equity Housing Cooperative

Is applicant proposing to convert the property to a limited equity housing cooperative (LEHC) or similar model?

Yes

Applicant experience with cooperative conversion:

BACLT has four cooperatives that are part of the land trust.

Exceptions to the Program Guidelines

Did the Applicant request or does the project require any exceptions to the program guidelines?

Yes

Describe exceptions, below.

BACLT requested to cap all units at 80% AMI (rather than achieving an average AMI of 80%).
 - 1638 Stuart has no existing tenants, and BACLT has demonstrated that the project will have a positive cash flow if rents are capped at 80% AMI.
BACLT requested a \$120,000 developer fee, in excess of the program standards.
 - SSP allows the lesser of 5% of development costs, or \$80,000 plus \$10,000 per unit.
 - BACLT's developer fee would therefore be the lesser of 5% (~\$110,900) or \$160,000.
 - BACLT's total development costs do not include site acquisition, so its development costs are lower than a project involving acquisition.
Low vacancy reserve (\$24,000)
 - Requirement assumes the project is operating during construction. Stuart is vacant and will not be operated until construction is complete, so a higher vacancy reserve is not necessary.

Funding Recommendation/Funding Contingent Upon

Fund BACLT at \$950,000, contingent upon:
 - BACLT securing a first mortgage in an amount sufficient to make the project feasible
 - Lease and loan terms satisfactory to the City
 - Confirmation of which planning or zoning approvals may be necessary
 - Submission of an approved marketing plan
 - City completion of CEQA analysis

