


CITY COUNCIL ACTION REQUEST

Department(s): Housing	CEQA: Not a Project, File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment. Council District 1. (Housing)	Coordination: CAO	Dept. Approval: /s/ Jacky Morales-Ferrand
Council District(s): 1			CMO Approval: 

SUBJECT: ACTIONS RELATED TO AFFORDABLE HOUSING OPTION AGREEMENTS FOR SIXTEEN SINGLE-FAMILY HOMES LOCATED AT WILLIAMS ROAD/SARATOGA AVENUE (PANDA CONDOS)

RECOMMENDATION:

Adopt a resolution to authorize the Director of Housing to negotiate and execute amendments to up to 16 Option Agreements for Panda Condos to add a new more flexible methodology to calculate homeowner maximum resale prices.

BASIS FOR RECOMMENDATION:

In 1986, Circle K Development partnered with the Housing Authority of Santa Clara County to construct 16 affordable condominiums on a former school site (Williams Road/Saratoga Avenue). The method for maintaining the condominiums as affordable was through an option agreement that each homebuyer was required to sign as a condition of purchase (“Option Agreement”). The Option Agreement gave the Housing Authority the right of first refusal to purchase, or assign the option to purchase to a qualified buyer at a price restricted by a formula in the agreement. The Option Agreements for 14 of the condominiums have been assigned and assumed by the City of San José. Two Option Agreements remain with the Housing Authority and may be assigned to the City at a future date. The terms of the Option Agreement indicate the property is to be resold (1) at a restricted price for a period of 59-years and (2) to an income eligible household. The restricted price is tied to the Consumer Price Index (CPI). However, it has been determined that the CPI method for calculating the resale price has been overly restrictive to the homeowners. Thus, a Panda Condos homeowner who purchased in 1986 at a price of \$69,900 would be required to resell their condominium at a price of \$183,779, when the current market value is approximately \$700,000.

To provide a fair rate of return to those homeowners, Housing is requesting to use the Affordable Housing Cost Limit (AHCL) as an additional method of calculating the resale price. The AHCL originates from the California Redevelopment law. It takes into consideration the current first mortgage interest rates, private mortgage insurance premiums, current income limits, and homeowners association dues. Therefore, it ensures that the condominium will remain affordable to households at the required income level using current and relevant data. The AHCL would yield a maximum sales price of approximately \$325,000 for a condominium purchased in 1986 for \$69,900. However, due to the unpredictability of the variables used to calculate the resale price using the AHCL, the resale price can fluctuate in an unpredictable manner. Therefore, it is recommended that City staff calculate both the CPI and the AHCL when determining the resale price of one of the Panda Condos. Housing staff will allow the greater sales price of the two methods.

The resale formula strives to balance affordability with wealth building. Homeownership is one of the few opportunities for lower income families to build wealth. At the same time, it is important to provide housing that is affordable to a range of income levels. Many residents who work or live in this neighborhood could qualify to be a future homeowner in Panda Condos; including teachers, restaurant workers and nonprofit employees.

COST AND FUNDING SOURCE:

The recommended action will result in no cost implications to the City.

FOR QUESTIONS CONTACT: Rachel VanderVeen, Deputy Director, (408) 535.8231