Miraflores For-Sale Housing

Community Update Meeting
April 6, 2023

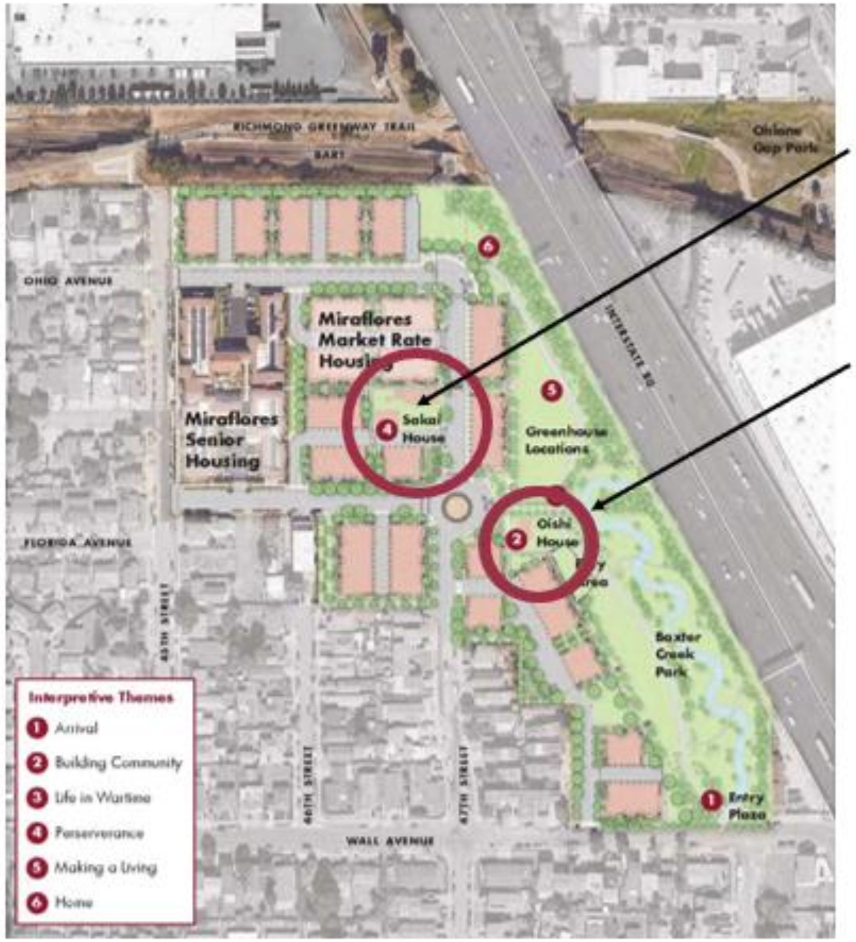
Agenda

- Project Overview
- Background
- Financing Proposal Evaluation
- Project Status
- Next Steps

Project Overview

Miraflores is a 7.3-acre site originally proposed for a 190-unit mixed market-rate and affordable (30 units affordable for moderate income households) for sale housing development, green belt, rehabilitation of certain historic resources, and related improvements per a Development and Disposition Agreement (DDA) approved by City Council on July 19, 2016.

City-Project Components



- 2-years of Creek monitoring remain
- Rehabilitation of Oishi House to be relocated within the Greenbelt
- Rehabilitation of Sakai house, water tower, and tank (pump) house
- 1-year to complete Japanese American Confinement Sites grant to add interpretative elements within the greenbelt park
- Rotary Grant for interpretative signage at greenbelt
- Working with City Consultants to advance project components within existing budget

Background

- Miraflores Community Devco, LLC (Developer) was selected through a competitive process by the Successor Agency on July 15, 2014 (see Agency Board Resolution No. 14-9). Subsequently, the Successor Agency and Developer entered into an Exclusive Right to Negotiate Agreement dated September 16, 2015.
- A Disposition and Development Agreement (DDA) was executed on July 19, 2016 between the Successor Agency and Developer. The purchase price was $4.2 million to be used for rehabilitation of certain historic properties.
- First Amendment executed waiving certain closing requirement to allow commencement of site improvements by Developer, and property was transferred to Miraflores Community Devco, LLC via grant deed recorded on October 31, 2018 (Doc No. 2018-177463).
- Site Improvements by Developer did not commence as anticipated by City.

Background

- After transfer, the Developer used the land to secure several loans totaling ~$10 Million.   DDA requires city approval of this financing which did not occur.
- In mid-2022, Developer approached City to modify project from a for-sale development to a workforce rental project maintaining the exterior building design and site plan to change financing structure.
- The financing structure proposed by Developer would require the City to join the California Community Housing Agency (Cal CHA) Joint Powers Association (JPA) to issue bonds to finance construction of the project and JPA would be new Owner.
- City agreed to evaluate financing structure for a recommendation to Successor Agency Board.

Financing Proposal Evaluation

- City staff, financial consultant, and city attorney met with Developer on a regular basis to discuss project and review the rental development proforma in order to fully assess the feasibility of the proposed financing for the project.
- Financial Consultant and Staff provided Developer industry standard assumptions to be included in proforma, requested updated proforma, and other supporting documentation (i.e. use of loan proceeds).
- Met with Developer multiple times (e.g. 9/15/22, 10/13, 10/27, 11/3, 11/29, 1/12/2023 and 2/24) to discuss project and request financial information. To date, Developer has not fully provided requested information.
- Deadline letter sent on November 22, 2022, requesting information previously identified. Information not provided by stated deadline in letter which was November 29, 2022.

Financing Proposal Evaluation

- Deadline for information extended to present to City Council on December 20, 2022. Information again not provided.
- Developer informed that City Council deferred decision on project until new Council comes on board in January 2023, and renewed request for prior information; no response to email, and information not provided.
- On February 24, 2023, Developer responded proposing an increase from 190 to 220 units to increase project revenue to address shortfall in operating expenses. Developer was asked to justify request with updated project proforma but declined to provide updated proforma unless City was willing to consider proposed changes.
- City received two Notices of Default stating property may be subject to foreclosure sale.
- Developer stated to staff they had communicated with construction lender and loan would be paid through that loan – but construction lender is private, and Developer would not disclose lender name to confirm.

Unanswered Questions regarding the Financing Proposal

1. Breakdown of $15 M in bond issuance costs, other than to say it includes $1.4 M capitalized operating reserve.
2. Breakdown of costs associated with $8.5 M UCC corporate equity contribution.
3. Breakdown of uses and costs associated with $8.9 M in title debt.
4. Rationale and supporting evidence for decreasing annual operating costs from $9,600/unit to $7,500/unit.
5. Not using industry standard assumptions for income and expense projections. Specifically, rents and maintenance numbers don't align with industry standards and no supporting rationale for deviations.
6. When property transfers to JPA ownership, unclear if JPA would assume ongoing obligations in DDA such as park maintenance, park improvements, and historic resource relocations/foundations.

Notification of Developer Default Received

- **First Trust Deed – Artes Capital (original amount = $6,850,000)**
  - **Notice of Default & Election to Sell recorded on Jan 26th**
  - Default amount as of Jan 25, 2023 = **$7,311,718.68+**
  - Notice of Sale can be recorded on or after April 26
  - Earliest Sale date (at least 20 days later): May 16.
- **Second Trust Deed – GF Fund (original amount = $ 220,000)**
  - **Notice of Default & Election to Sell recorded on Jan 18th**
  - Default amount as of Jan 17, 2023 = **$1,694,276.47+**
  - Notice of Sale can be recorded on or after April 18
  - Earliest Sale date (at least 20 days later): May 9.

2nd TD foreclosure will occur 1st

- **Delinquent real estate taxes remain despite foreclosures:**
  - $40,000 (will double in April if 2nd installment not paid)

City Default Letter to Developer to include:

1. Burdening the property with unapproved loans of ~$10M now in foreclosure
2. Failure to maintain the property
3. Failure to pursue construction diligently
4. Failure to pay taxes, and
5. Failure to meet other provisions and obligations contained in the DDA and project agreements.

Next Steps

- Issue Letter of Default to Developer
- Monitor Foreclosure Process
- Continue to work with City Consultants to complete City-led project components

Questions/Discussion