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APR 28 2008

Memorandum
by City Manager's Office

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Leslye Krutko

SUBJECT: TODAY'S MERCURY NEWS --
ARTICLE ON "AFFORDABLE
HOUSING"

DATE: April 22, 2008

Approved

Date

4-23-08

COUNCIL DISTRICT: Citywide

INFORMATION

This memorandum seeks to clarify several issues included in a front-page article in the April 22, 2008 San Jose Mercury News, entitled "Affordable Condo Project in San José Fails to Attract Buyers." The article is of concern, as it implies that affordable housing developments are not fairing well in this market.

The project that is the subject of the article—Villa Almendra—is a 17-unit market-rate condominium development, not an affordable development. The project is located in the Washington SNI area, and, as such, had an inclusionary housing requirement to provide 20% of the units to moderate-income buyers. However the developer, Neighborhood Housing Services Silicon Valley (NHSSV), opted to pay in lieu fees rather than sell to affordable purchasers. No City money was used to develop these units.

NHSSV's initial pricing of the units was overly optimistic given the market conditions at the time. After six months of marketing, no units had sold and it became clear that the sales price of the units were too high. In February of 2008, the Housing Department and Redevelopment Agency met with the developer to provide technical support. The Housing Department agreed to seek City Council support, which was received on March 18th, to provide second mortgage assistance to the development as long as the developer reduced prices to a level that would make the units affordable under City guidelines. In addition, the City conditioned the commitment on NHSSV continuing to explore other aggressive sales strategies and considering further reductions in sales prices, if sales remained slow. While NHSSV has reduced prices, their overall pricing is still in line with other townhomes and single-family detached homes in similar locations, so marketing the units remains difficult.

We know that this is a challenging market. Despite the market, most units with City second mortgage commitments are selling well, with the only exception being units that are small (studios and small one-bedroom units) where there is a limited market. There are market-rate ownership condominiums on the market; however, that have had difficulty selling. The current tight lending environment has made it difficult for first-time homebuyers, a key audience for condominium and townhouse builders, to enter the market.

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The City Council took action in March to commit \$10 million in new funds to provide second mortgage assistance to low- and moderate- income homebuyers in these market-rate developments. The City's loan program is designed to enable first-time homebuyers to bring additional downpayment assistance funds to the table and increase their opportunities for homeownership. An announcement regarding these awards will be made later this week.

Please note, the article incorrectly states that the NHSSV administers the Teacher Housing Program (THP). The THP has always been and continues to be administered by the Department of Housing.


LESLYE KRUTKO
Director of Housing

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