

OVERVIEW OF NSP-2 ACTIVITIES

CITY OF MONTEREY COMPONENT OF CONSORTIUM APPLICATION

Monterey Hotel Mixed Use

The Monterey Hotel Mixed-Use project is an 18 unit affordable rental project, and hotel expansion project currently in default and has been placed in receivership by the Bank, Rabobank, the construction lender. The City Redevelopment Agency has loaned \$2,200,000 in Redevelopment housing funds to assist the 18 unit rental development on the site. The project came to a halt because the developer was unable to acquire a permanent loan for the hotel expansion component and additional funds were needed due to some cost overruns. The contraction of the credit market resulted in this project being in default of the commercial construction loan. The development is incomplete and it now stands in the City's downtown core partially finished and a potential blight on the downtown area. The site is fenced and serves as an attractive nuisance for vagrants. The project was a key anchor for the City and is located within one block from the transit center, shops and jobs. The City has adopted mixed-use guidelines for the downtown, and other key corridors of the City. This mixed use project was the catalyst for other mixed use projects in the City.

The City has been working with the owner, builder, receiver and the bank to address the default and avoid foreclosure. The City's immediate strategy is to work in partnership with the bank to complete the stucco and storefront glass installation components to preserve the existing structure, provide safe exiting for the operating hotel and eliminate the potential for blight. At this time, the City is approximately \$2,000,000 short of funds to completely finish the housing component due to construction cost overruns, and the loss of \$800,000 in State of California HOME funds that were to be targeted to the affordable rental units on the site. The hotel component is also short approximately \$2,000,000 and the City is exploring various options for assisting the bank in securing these additional funds. The City's ultimate goal is to see the project completed and subdivide the housing site from the Hotel to ensure long term preservation of affordable downtown rental housing opportunities..

The downtown has suffered from the downturn in the worldwide economy and the resultant shrinking tourism market. A large downtown building suffered a fire approximately 1.5 years ago, and was demolished, and now a large hole currently marks the spot of a former historic building. The Downtown also contains another three story vacant building which is a result of another developer being forced into default and receivership. Also there are a number of vacant storefronts in the downtown which has been a result of the contracted tourist and overall regional economy.

800 Casanova Foreclosed Condominium Development

The 128 unit condominium site was built in the 1980's and leased until 2007 when sales began, contains 44 units that have been sold to individual owners. The developer went into foreclosure and I-Star Bank currently owns the remaining 84 units. The units are in

various stages of demolition, readiness for resale, and some are located within buildings that are owned by individual owners. The resultant foreclosure has caused a number of issues with the existing owners, as they do not have control over the homeowner's association or common areas, including the community center. Some of the existing owners have made a choice of foreclosure over ownership due to the status of the site and the fact that they paid much more than the market will allow the unit to be sold at this time.

The City plans to purchase a large portion of remaining units (phase 4) at a discount from the bank, possibly demolish some units in buildings that are vacant, rebuild at a lesser density and add site amenities that increase the overall value of the property. Any units to be reconstructed at a lesser density will be owned by the City and most probably operated as affordable special needs rental housing, such as accessible housing and/or senior housing. The units to be demolished will be reconstructed with one story design to accommodate needs of individuals with limited mobility needs. The resultant reduction of the density and parking demand, coupled with site amenities will result in a better site configuration and neighborhood. A better designed site incorporating solar, site improvements, interior finishes that fit the population and are durable will result in a cost efficient rental project designed to meet the needs of the community. The architecture and construction of this site is substandard, the developer added cosmetic enhancements without addressing the construction defects of the units which were previously rental apartments. The site contains pathways and stairs that can be difficult to navigate and not always accessible. Many of the unsold units are under renovation and not ready for occupancy at this time. The developer default has stopped the development process and the project is incomplete. The long term viability must be ensured and this may only occur with the assistance of Federal grant funds.

The neighborhood in which the site is located is a Neighborhood Revitalization Area, a targeted census tract for Community Development Block Grant funds. The area contains a majority of low and moderate income households, and is one of the highest density neighborhoods in the City. The site is located on a main transit line, near shops, a City recreation center, and a short distance from the downtown area that contains a major transit connection center. Utilizing this site as a rental project will prove an opportunity to stabilize the neighborhood, and the site, work with the owners to develop the property owner's association and create a livable environment for the development.

Need- Rationale for Program as Designed

According to the 2009 Housing Element for the City of Monterey, there are considerable constraints to development of affordable housing in the City of Monterey and on the Monterey Peninsula overall. The major constraint to affordable rental housing development is the availability of water for development of any kind. Water to the Peninsula is supplied by a private for-profit water company through wells in rural Carmel Valley, dams on the Carmel River and the Seaside aquifer. The Monterey Peninsula Water Management District has established allocations, with the City's allocations fully used. This utilization has resulted in new construction of any kind being placed on a waiting list for many years. The City is able to glean water from existing sites and utilize extreme water management practices to conserve existing water on-site, although it

cannot be transferred to other sites. Therefore the redevelopment of existing high water use uses is the only means to produce affordable rental housing, as has occurred with the mixed use projects.

Additional constraints to affordable housing include the fact that the City is built out, which further exemplifies the need for redevelopment of existing sites, with future resident development potential existing with infill development. Raw land costs in this desirable Coastal City were estimated in the 2009 Housing Element with data provided by the Assessor's Office at \$70.00 per square foot, with an average 5,000 square foot lot having an average land value of \$350,000. The costs of construction averages \$150 per square foot for multi-family units, with the construction costs associated with infill development on tight sites, and the cost of delivering materials to the Monterey Peninsula. The rationale for focusing upon rental projects that are either been in foreclosure, or are in receivership with the resultant blight caused by both projects, are justified in the Monterey Mixed Use Project located in the Down Town Redevelopment Project area, and the 800 Casanova foreclosure site located in an impacted census tract that is designated as a Neighborhood Revitalization Area. The Casanova and the Downtown mixed-use rental project are located in census tracts that exceed the Community Development Block Grant (CDBG) Exception (43.5%) levels for low-income households. The City was designated as an Exception Community in 2008 by the U.S. Department of Housing and Urban Development and is an Entitlement Community for CDBG.

According to the Housing Element data, the City is further impacted by the large number of students that live in the City due to the location of two Defense Institutes, the Institute for International Studies, and the Monterey Peninsula College. The City has 12,351 students attending school in the City. The Defense Language Institute provides an off-base housing allowance for 2,939 households that subsidizes market rate rents, and impacts the ability of the lower income households to live in the City. The availability of affordable rental housing is impacted by the location of these educational institutions and housing allowances, which causes a high cost rental burden for the workforce of the City. The workforce in the City is hospitality and tourism workers, hospital, teachers, and a variety of governmental employees. Of a total of 11,928 households, 3,277 (37%) are paying more than 35% of their income for housing. The Element notes that 41% of the population earns less than \$49,999 per year, and an additional 18% earn between \$50,000 to \$74,999.

The HUD median income for a household size of 4 in the County of Monterey for 2009/10 is \$64,800. The Element notes that for a household size of 4 earning \$19,450 they could afford a \$48,778 mortgage; a household size of 4 earning \$77,800 can afford a \$222,342 mortgage. Even if the City were impacted by a large number of forecloses there is little likelihood that the cost of housing in the City of Monterey would drop to those levels. In 2005 a single family home average sale price was \$875,000, by the last quarter of 2008 the price had declined to \$720,921; in 2005 condominiums sold for an average of \$574,472 and in the last quarter the price was \$534,980. As of May 2009 there were 88 single family units on the market with the average price at \$527,750, average days on the market of 260 with an average received price at 89.85% of listing

price. Even at these declines the median income will not support this type of a mortgage.

The primary cause for declining values, although still not to an affordable level, is the extreme desirability of the safe Coastal community in a highly praised tourism area. The escalated property values were a result of the dot.com market in the Santa Clara Valley in early 2000, further escalated by speculators, retirees wishing to have second home, property flippers making a living of turning homes in a year or less, and the lax financing market that allowed such occurrences with little oversight. These escalated market values further taxed the rental market. The combination of the collapse of the credit market and the economic contraction leading to loss of tourism, layoffs and business closures has created declining property values Countywide. This decline offers an opportunity for the middle income workforce to purchase in adjacent housing markets due to the pent up demand for affordable ownership housing. There is still a great need for affordable rental housing for lower-income workers, single heads of households, seniors and disabled households.

Because the City is one of the least crime impacted cities in Monterey County, and many services are available to the elderly, disabled and single-heads of households, there is a need to accommodate these populations with affordable rental housing. As a transit oriented and walkable community rental housing designed to accommodate these populations is a primary need. The 2005/10 Consolidated Plan notes that 15% of the total population of the City is disabled, 8% are seniors, and 8% are single parents. The homeless population has grown from 57 as documented by the winter 2008 homeless survey to 193 in the winter 2009 homeless survey.