THE VIEW HOUSING PROJECT

DOWNEY, CALIFORNIA

SUMMARY REPORT CONCERNING THE DISPOSITION OF CERTAIN COMMISSION-OWNED PROPERTY WITHIN THE FIRESTONE REDEVELOPMENT PROJECT AREA

(California Community Redevelopment Law)
Section 33433

PURSUANT TO A PROPOSED
DISPOSITION, DEVELOPMENT AND LOAN AGREEMENT
BETWEEN
THE DOWNEY COMMUNITY DEVELOPMENT COMMISSION
AND
NATIONAL COMMUNITY RENAISSANCE OF CALIFORNIA

Downey Community Development Commission

October 22, 2010

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Attachment: RSG, Inc., October 18, 2010 Reuse Valuation Memorandum Report

I. INTRODUCTION

The Community Development Commission ("Commission") of the City of Downey ("City") is considering the sale of a point five two (0.52) acres site ("Site") located in the Firestone Redevelopment Project Area ("Project Area"). The Site is comprised of two parcels of land, which includes a 16,919 square feet Commission-owned property located at 8314 2nd Street (APN 6254 020 914), and an adjacent 5,621 square feet parcel to be purchased by the Commission from the City of Downey (APN 6254 020 902), together with an air rights easement ("Parking Deck Easement") above the zero point four eight (0.48) acres surface parking lot ("Surface Parcel") located across 2nd Street (APN 6254 019 900 & 901). This Summary Report sets forth certain details of the proposed Disposition and Development Agreement ("Agreement") between the Commission and National Community Renaissance of California ("Developer").

The Agreement requires the Developer to use the subject Site for the design and construction of a 50-unit affordable family apartment project. The Agreement allows for two design options, one of which may be implemented dependent on whether: 1.) the Developer receives both a Infrastructure Improvement Grant ("IIG") funding from the State and an LA County/Industry Funds Loan on or before November 30, 2012; or 2.) the Developer receives only LA County/Industry Funds. Design Option 1 provides for development of the Site with a subterranean parking structure below the residential units, while Design Option 2 provides onsite and offsite parking for the residential tenants at the Parking Deck Site on the air rights Parking Deck Easement located above the Surface Parcel. Accordingly, under Design Option 2 the Commission would convey the air rights easement to allow the construction of parking improvements on the Parking Deck Easement located above the Surface Parcel, which is attendant to the construction of the Auxiliary Parking Site, as identified in the Parking Deck Easement Agreement.

The Commission-owned property consists of the fee interest in the land together with an existing 31,020 square foot building, which was acquired in June, 2008 using Commission tax increment moneys. The adjacent City parcel consists of the fee interest in the land currently improved for surface parking, which would also be acquired by the Commission using tax increment moneys. While the Surface Parcel owned by the City of Downey was acquired without Commission tax increment funds, the Commission would purchase the Parking Deck Easement from the City via a loan using tax increment dollars.

This Summary Report together with the attached Reuse Valuation Memorandum Report prepared by the City's economic consultant, RSG, Inc., incorporated herein by reference, is based on information contained within the Agreement, and has been prepared in compliance with Section 33433 of the California Community Redevelopment Law (Health and Safety Code Section 33000 et seq.). Section 33433 provides in part: "Before any property of the agency acquired in whole or in part, directly or indirectly, with tax increment moneys is sold or leased for development pursuant to the redevelopment plan, such sale or lease shall first be approved by the legislative body by resolution after public hearing." As contained in the Code, the information in the Report shall include a summary which describes and specifies all of the following:

- The cost of the agreement to the Commission, including land acquisition costs, clearance costs, relocation costs, the costs of any improvements to be provided by the Commission, plus the expected interest on any loans or bonds to finance the agreements;

- The estimated value of the interest to be conveyed or leased, determined at the highest and best uses permitted under the Firestone Redevelopment Plan;

- The estimated value of the interests to be conveyed or leased, determined at the use and with the conditions, covenants, and development costs required by the sale or lease, including an explanation of the reasons for any difference if the sale price or total lease amount is less than the fair market value of the interest to be conveyed; and

- An explanation of why the sale or lease of the property will assist in the elimination of blight.

II. COST OF THE AGREEMENT TO THE COMMISSION

The cost of the proposed Agreement to the Commission can be either an actual cost, when expenditures exceed receipts, or a net gain, when revenues created by implementation of the Agreement exceed expenditures. The Commission purchased one property and will purchase an adjacent parcel for the purpose of developing affordable housing. The Commission is also expected to incur costs to demolish the existing structure, clear the site, and pay certain pre-development and miscellaneous disposition costs. In addition, the Commission will provide a loan to assist the Developer in the construction of the Project.

The total cost of the Agreement to the Commission, as well as the net cost of the project after consideration of the project revenues is detailed below.

Property Acquisition	$1,481,775
Demolition	$661,034
Pre- Development & Disposition Costs	$175,000
Commission Cash Assistance	$3,450,000
Total Project Cost (1)	**$5,767,809**
Less:	
Present Value of Commission Revenues (2)	$709,000
NET COST TO COMMISSION	**$5,058,809**

(1) Source: Downey Community Development Commission
(2) Estimated Net Present Value based on RSG discounted cash flow of payments and repayment of Commission Loan over 55-year period.

Notwithstanding the actions identified above, the Commission shall have no responsibilities for the financing, construction, or operations of the improvements other those arising from its: (a) carrying out routine governmental functions; (b) performing conventional activities of a lender; and (c) imposing statutorily authorized or required conditions accepted by the developer. Any review or inspection undertaken by the Commission with reference to the Development is solely for the purpose of determining whether the Developer is properly discharging its obligations to the Commission.

III. ESTIMATED VALUE OF THE INTERESTS TO BE CONVEYED AT THE HIGHEST AND BEST USE PERMITTED UNDER THE REDEVELOPMENT PLAN

Highest and Best Use

Highest and best use is defined by the appraisal industry as:

- That reasonable and probable use that will support the highest present value as of the effective date of the appraisal.
- Alternatively, that use, from among reasonably probable and legal alternative uses, found to be physically possible, appropriately supported, financially feasible, and which results in the highest land value.

The highest and best use is generally determined through consideration of physical characteristics of the site, including size and shape, location including surrounding uses freeway access economic considerations, and legal considerations such as city zoning. In this case, the Site is comprised of two parcels including a 16,919 square foot Commission Property with approximately 31,020 square feet of improvements in fair to poor condition reflecting a significant amount of deferred maintenance, and an adjacent 5,621 square foot City Parcel with surface parking improvements. The Site is subject to zoning in the Downtown Specific Plan. The interest to be conveyed also includes the air rights easement located above the 21,000 square feet Surface Parcel. The key factors for consideration in determining highest and best use are: 1) the Site's zoning designation; 2) the adjoining land uses; and, 3) current market conditions. While, as an alternative, it may be legally permissible and physically possible to develop the Site with affordable housing, it is not economically feasible without pubic subsidy. Based these considerations, it was determined that the highest and best use of the Site, as vacant, is for commercial use, or for the property as improved, for renovation of the existing improvements. For the Surface Parcel, the highest and best use is commercial use.

Estimated Fair Market Value

Of the three generally accepted approaches used to establish the market value of real estate, the market or comparison approach is favored when there is sufficient data available since it is based on recent market sales of similar properties. Analysis of both highest and best land uses indicates a fairly close range of market values. Based on the highest and best use and comparable market sale prices of similar sites, the independent summary appraisal report prepared by Russell W. McCoy, MAI, dated as of September 10, 2007, identified the estimated as-is market value for the Commission Property at $1,550,000. This reflected the estimated fair market value of the Site at $136.87 per square foot in 2007, the year before the property was acquired by the Commission, which generally reflected conditions at a height in the Los Angeles area real estate market.

The current 2010 market, however, indicates a substantial erosion of commercial property values due to the economic downturn and constrained financing markets experienced both nationally and regionally. The economic downturn during the past three-year period has seen unemployment rise from about a 6% level to over 12%, while office vacancy levels have increased from 6.4% to over 14.6% in the mid-cities submarket area of LA County. At the same time the financing markets have moved dramatically in terms of interest rates and debt cover ratio requirements. Interest rates for commercial properties have increased from a 5.5% level to over 7.75%, while debt cover ratios have increased for about 1.1% to 1.2% plus. The foregoing factors have put substantial downward pressure on values for office properties. It is common to see properties that have experienced declines in values of over 25% from their former highs in 2007, which would suggest a current fair market value of about $1,162,500 for the Commission Property based on its limited use and as-is condition. The Commission actually acquired the Commission-owned parcel for $1,000,000 in June of 2008.

Based on the highest and best use and comparable market prices for similar sites, the current estimated market value for the City Parcel, as of October 18, 2010, is identified to be about $140,525 or $25 per square foot of land area.

The fair market value for the air rights Parking Deck Easement is based on the contemplated utility of the land as if it were clear and vacant, suitable for improvements to its highest and best use. Based on market comparable prices for similar site, the market value for the fee interest in the subject site is estimated to be $25 per square foot. Air rights interests, however, generally serve to constrain the development of the underlying fee site. Thus the value of the air rights may be reflected by the likely reduction in the value of the underlying fee interest based on the potential impediment to developing the site to its highest and best use. The potential impact may range from between 42% to 80%. Based on the low intensity of likely uses at the subject site an impact of 65% is assumed, which results in an estimated value of $16.25 per square foot or a total of $341,250 for the Parking Deck Easement.

Based on the foregoing analysis the fair market value of the interest to be conveyed under Design Option 1, is estimated to be $1,481,775, and for Design Option 2, is estimated to be about $1,644,275.

IV. ESTIMATED VALUE OF THE INTERESTS TO BE CONVEYED DETERMINED AT THE USE AND WITH THE CONDITIONS, COVENANTS, AND DEVELOPMENT COSTS REQUIRED BY THE AGREEMENT

The interests to be conveyed are the bundle of rights associated with the proposed sale or lease of the Site. The fair reuse value of the interests to be conveyed is directly a function of the economics for the specific development required to be constructed under the terms and conditions of the Agreement, including but not limited to the 55-year rent restrictions for lower income households. The fair reuse value can be determined through estimating the residual value of the interest to be conveyed after deducting the costs associated with constructing the proposed Project improvements.

The developer's pro forma financial analysis, dated October 20,, 2010, presented a financial analysis of the Project's economics, which was reviewed and corroborated by RSG, Inc., the Commission's independent economic consultant. The Developer's financial analysis is reflected in the Project Budget – Exhibit I to the Agreement. A reuse valuation analysis was prepared by RSG, Inc., which concluded that given the terms and conditions, including but not limited to, the income and rent restrictions required by the Agreement and Lease, the interests to be conveyed has a negative residual value of -$4,999.999. This is reflected by the unfunded balance of the total development cost less amounts paid from: (a) the two trust deed permanent financings; (b) the tax credit proceeds; (c) the State IIG Grant and/or the LA County/Industry Loan; and (d) the deferred developer fee. The residual amount serves to identify the estimated reuse value of the Site as -$4,999.999. The negative value is rounded to zero for purposes of the determining the fair reuse value of the interest to be conveyed.

Consideration Received and Comparison with the Established Highest and Best Use

The Commission has determined that the provision of affordable family apartments, as provided in the Agreement offers an immediate opportunity for expanding the supply of affordable housing in the community, while eliminating a vacant deteriorating building in the Downtown Specific Plan area and within the Original Area of the Firestone Redevelopment Project Area. The project will be developed in the near-term and it will maximize the site's ability to provide additional low and moderate-income housing in the community. While the estimated net present value of the total consideration to be received by the Commission in the amount of $709,000 is less than the estimated highest and best use fair market value of the interest to be conveyed, it is not less than the estimated fair reuse value of $0 at the use and with the covenants, conditions and development costs required by the Agreement.

V. EXPLANATION OF WHY THE SALE OF THE PROPERTY WILL ASSIST WITH THE ELIMINATION OF BLIGHT

The Implementation Plan for the Firestone Redevelopment Project, adopted by the Commission in 2010, in accordance with Section 33490 of the CRL, contains goals and objectives and the projects and expenditures proposed to eliminate blight within the Project Area. These blighting factors include:

- The age, obsolescence, deterioration, mixed character, or shifting uses of existing buildings;

- The subdividing and sale of lots of irregular form and shape, and inadequate size, for proper usefulness and development;
- A prevalence of depreciated values and impaired investments; and
- The defective design in character or physical condition of buildings.

The Commission's redevelopment efforts have helped to alleviate many blighting conditions in the Project Area. While not all of these conditions are present throughout the Firestone Redevelopment Project Area, implementation of the Agreement can be expected to assist in alleviating blighting conditions through the following:

- Consolidation of smaller and irregular parcels into a site appropriate for development;
- Encourage new and continuing private investment in the Project Area;
- Improve public facilities, open space, and utilities; and
- Expansion of the supply of affordable housing units for Downey's very low-income households.

VI. CONFORMANCE WITH THE FIVE YEAR IMPLEMENTATION PLAN

The proposed Agreement is consistent with the Five-Year Implementation Plan in meeting the objectives and goals in the following ways:

- Increase the number of housing units for families at various affordability levels needed by the community;
- Revitalize formerly blighted area that consisted of dilapidated structures on underutilized lots;
- Maintain high quality residential development standards to ensure the establishment of livable neighborhoods with lasting safety and aesthetic value; and
- Assure that housing opportunities are available to all persons without regard to race, color, ancestry or national origin, religion, or marital status.