DATE: April 13, 2020

SUBJECT

Resolution approving a loan assumption and subordination request to support the reconstruction of affordable apartments located at 531 Woodside Road (Hallmark House)

RECOMMENDATION

Adopt a resolution (1) approving a loan assumption and subordination request for an existing loan from the City to KDF Hallmark, (2) authorizing the City Manager or designee to execute the documents listed below, subject to any minor, clarifying and conforming changes approved by the City Attorney, and (3) authorizing the City Manager to take all actions necessary to complete this transaction, including execution of any other necessary documents:

1. Assignment and Assumption Agreement
2. First Amendment to Declaration of Affordability Covenants
3. First Amendment to Deed of Trust with Assignment of Rents
4. First Amendment to Owner Participation Agreement
5. First Amendment to Promissory Note
6. Subordination Agreement

STRATEGIC PLAN GUIDING PRINCIPLE

Housing

BACKGROUND

In 2003, the City of Redwood City and the former Redwood City Redevelopment Agency (RDA) provided a loan in the joint amount of $650,000 to KDF Hallmark (“Owner”) for the refinance and rehabilitation of the Hallmark Apartments, located at 531 Woodside Road. The purpose of the loan was for the long term
The preservation of existing affordable housing and the funding sources used were $150,000 from the former RDA Low Mod Housing Set Aside funds and $500,000 from federal HOME funds. The terms of the loan included a 55-year period of affordability through a deed restriction. At the time the City and RDA made the loan, Hallmark Apartments included 72 units, 22 restricted for very low income senior/elderly households and 50 units restricted for low income households.

A substantial fire occurred at the Hallmark Apartments in July 2013 and all tenants were forced to immediately evacuate and were not able to return due to the extensive damage to the building. Immediately after the fire, the insurer approved funds for a contractor to secure the site and remove hazardous and damaged materials from the building. Since that time, the KDF Hallmark worked with their insurer to reach a settlement regarding the cost of reconstruction and bought out their limited partner (Alden Torch) in December 2018. In order to finance this buyout, KDF Hallmark received a bridge loan from Citibank, and the City’s loan of $650,000 was subordinated to this bridge loan in December 2018. The Citibank bridge loan will now be paid off with the new construction/permanent financing.

ANALYSIS

In order to finance the rebuild, KDF Hallmark obtained an allocation of tax exempt bonds and tax credits in October 2019. KDF Hallmark has also established a new ownership entity, Hallmark 2017 LP, which will serve as the new tax credit partnership responsible for the rehabilitation and ownership of Hallmark House. Even with these changes, the City still has a loan of $650,000 on the property. KDF Hallmark has requested that the City allow Hallmark 2017 LP, the new ownership entity, to assume the City’s existing loan and that the City allow its loan to become subordinate to a new construction/permanent loan from Citibank. This means the construction/permanent loan will be paid before the City loan is paid in the event of a default by Hallmark 2017 LP. However, when Hallmark 2017 LP assumes the City’s loan, the affordability period of 55 years will restart and extend through 2075. The property owner received building permits in February 2020 and expects to close financing at the end of April 2020 with construction beginning immediately thereafter.

FISCAL IMPACT

There will not be any fiscal impact to the City by allowing Hallmark 2017 LP to assume the City’s loan and subordinating to the new financing.

ENVIRONMENTAL REVIEW

This activity is not a project under California Environmental Quality Act (CEQA) as defined in CEQA Guidelines, section 15378, because as an administrative activity, the loan assumption, subordination agreement and related documents have has no potential for resulting in either a direct or reasonably foreseeable indirect physical change in the environment. The rebuilding of Hallmark House as authorized by the building permits is exempt CEQA Guidelines Section 15302 (Replacement or Reconstruction).
PUBLIC NOTICE

Public notification was achieved by posting the agenda, with the agenda items being listed, at least 72 hours prior to the meeting.

ALTERNATIVES

The City could deny the loan assumption and subordination request, however, this would jeopardize the project financing necessary to complete the rebuild of these affordable housing units.

ATTACHMENTS

Attachment A – Resolution approving a loan assumption to support affordable housing
Attachment B – Assignment and Assumption Agreement
Attachment C – First Amendment to Declaration of Affordability Covenants
Attachment D – First Amendment to Deed of Trust with Assignment of Rents
Attachment E – First Amendment to Owner Participation Agreement
Attachment F – First Amendment to Promissory Note
Attachment G – Subordination Agreement

REPORT PREPARED BY:

Alin Lancaster, Housing Leadership Manager
alancaster@redwoodcity.org
(650) 780-7299

APPROVED BY:

Alex Khojikian, Assistant City Manager
Melissa Stevenson Diaz, City Manager