

TEMECULA REDEVELOPMENT PROJECT

TEMECULA, CALIFORNIA

**SUMMARY REPORT PERTAINING TO THE PROPOSED CONVEYANCE
OF CERTAIN PROPERTY WITHIN THE
REDEVELOPMENT PROJECT AREA**

**California Community Redevelopment Law
Section 33433**

**PURSUANT TO THE
DISPOSITION AND DEVELOPMENT AGREEMENT
BY AND BETWEEN
THE CITY OF TEMECULA
AND
HABITAT FOR HUMANITY INLAND VALLEY, INC.**

Temecula, California

April 2023

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I. INTRODUCTION

A. Purpose of Report

This Summary Report was prepared in accordance with Section 33433 of the California Community Redevelopment Law in order to inform the City of Temecula (City) and the public about the proposed Disposition and Development Agreement (Agreement) between the City and Habitat for Humanity Inland Valley, Inc. (Developer).

As described in Table 1, the Developer intends to construct six (6) residential units (Homes) on a 0.46-acre site located west of Pujol Street and northerly of 1st Street (Property) in the City of Temecula (City). The Property is located adjacent to an existing five-unit affordable single-family development completed by the Developer in 2008. The units planned for the Property will average 1,255 square feet (SF) with attached private garages (Project).

This Report describes and specifies:

1. The costs to be incurred by the City under the Disposition and Development Agreement (Agreement);
2. The estimated value of the interest to be conveyed by the City to the Developer at the highest and best use permitted under the Redevelopment Plan;
3. The estimated value of the interest to be conveyed at the proposed use and with the conditions, covenants, and development costs pursuant to the proposed Agreement;
4. The compensation to be paid to the City pursuant to the proposed transaction;
5. An explanation of the difference, if any, between the compensation to be paid to the City under the proposed transaction and the fair market value at the highest and best use consistent with the Redevelopment Plan; and
6. An explanation of why the conveyance of the interest will assist with the elimination of blight.

B. Summary of Findings

The City engaged its economic consultant, Keyser Marston Associates, Inc. (KMA), to analyze the financial terms contained in the proposed Agreement. KMA reviewed the draft Agreement under discussion between the City and the Developer as of the date of this Report. The KMA conclusions

are summarized as follows:

- The estimated costs of the Agreement to the City total \$824,000.
- The estimated fair market value of the interest to be conveyed at its highest and best use is \$561,000.
- The estimated fair re-use value of the interest to be conveyed is *negative* \$700,000.
- The estimated value of the compensation to be received by the City is *negative* \$700,000.

C. Description of Area and Proposed Project

Old Town Temecula was founded in the 1880s and is considered the heart of Temecula. The Old Town area is characterized as a unique and historic environment with a distinct western theme that is present in its streetscape and architecture. The historic neighborhood offers its residents and tourists a variety of specialty shopping, dining, and entertainment uses.

Table 1 describes the physical characteristics of the proposed Project. The proposed Project will contain six (6) attached homes on a 0.46-acre site on Pujol Street in Temecula. The Property is currently owned by the City. The proposed Project will be comprised of three-bedroom units, with an average size of 1,255 SF. The entire Project will be affordable to Very Low-Income households (earning up to 50% of Area Median Income [AMI]) and Low-Income households (earning up to 80% of AMI).

D. Proposed Transaction Terms

This section summarizes the salient aspects of the business terms contained in the proposed Agreement.

- The City will convey fee simple interest in the Property to the Developer.
- The Developer will pay the City \$561,000 for the Property in the form of a City Loan (Purchase Money Loan).
- The City will contribute a total of \$700,000 to the Project in the form of a City Loan (Construction Loan).
- The Developer will construct six (6) residential units (Homes) comprising five (5) units affordable to Very Low-Income households and one (1) unit affordable to a Low-Income household.

- It is the responsibility of the Developer to ensure that applicable City zoning and land use requirements will permit development of the proposed Project.
- The Developer will be responsible for all development costs, including off-site improvements, site preparation and grading, and construction of the Project.
- It is the responsibility of the Developer to conform to all applicable Federal and State labor laws including requirements, if any, to pay prevailing wages.
- Close of Escrow shall occur no later than July 28, 2023.
- In the event of default by the Developer, principal and interest on the City Loans will be immediately due. Interest will accrue from the date of the Loan at the lesser of 7% simple interest or the maximum rate allowed by law.
- The Developer will provide interest-free, long-term senior or first lien financing to the homebuyers.
- Homes will be restricted for Very Low- and Low-Income households for a term of 45 years.

II. COSTS OF THE AGREEMENT TO THE CITY

The estimated costs of the Agreement total \$824,000, reflecting all costs incurred by the City. These costs include the following items:

City Costs	Amount
Original Acquisition Cost (1)	\$84,000
Third Party Costs (2)	\$40,000
Subtotal	\$124,000
Add: City Loan (Construction Loan)	\$700,000
Add: City Loan (Purchase Money Loan)	\$561,000
Subtotal	\$1,385,000
(Less) Purchase Price received for Property	(\$561,000)
Total City Costs	\$824,000

(1) Per City correspondence dated November 28, 2022. Parcels were acquired in 1992 and 2009.

(2) Gross estimate; includes legal and economic consultants.

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

This section presents an analysis of the fair market value of the Property at its highest and best use. In appraisal terminology, the highest and best use is that use of the Property that generates the highest property value and is physically possible, financially feasible, and legally permitted. Therefore, value at highest and best use is based solely on the value created and not on whether or not that use carries out the redevelopment goals and policies for the City.

The Property is currently zoned SP-5, Old Town Specific Plan. This zoning allows for neighborhood residential use. The multi-family density allowed under this zoning is 35 units per acre.

The City contracted with Perdue Russell & Matthies Real Estate for an appraisal of the Property. The appraiser estimated the current market value of the Property as of March 3, 2023. The appraisal does not consider the specific conditions, covenants, and restrictions contained within the Agreement. The appraiser concluded the fee simple market value of the Property, as is vacant, to be \$561,000. This land value translates to \$28 per SF.

KMA conducted surveys of Old Town multi-family and mixed-use land sales and multi-family land sales throughout the Temecula Valley. The Old Town Specific Plan is a unique planning and regulatory document, and therefore it is difficult to adjust comparable sales from elsewhere in the Temecula Valley to reflect the value of property within Old Town. The appraiser's estimate of value for the Property reflects the upper end of the KMA surveyed comparables. Many of the surveyed comparable sales are inferior to the Property with respect to location, configuration, and/or prevailing market conditions at time of sale, suggesting that significant upward adjustments are warranted.

Conclusion

In view of the above considerations, KMA concurs with the appraiser's conclusion of value for the Property of \$28 per SF. On this basis, then, KMA finds that the fair market value of the Property at its highest and best use is \$561,000.

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

This section explains the principal conditions and covenants which the Developer must meet in order to comply with the Agreement. The Agreement contains specific covenants and conditions designed to ensure that the conveyance of the Property will be carried out in a manner to achieve the City's objectives, standards, and criteria under the Redevelopment Plan. Based on a detailed financial feasibility analysis of the Project, KMA concludes that the fair re-use value of the interest to be conveyed is *negative* \$700,000.

KMA estimated the re-use value of the interest to be conveyed based on the anticipated income characteristics of the proposed Project. Re-use value is defined as the highest price in terms of cash or its equivalent which a property or development right is expected to bring for a specified use in a competitive open market, subject to the covenants, conditions, and restrictions imposed by the Agreement.

KMA reviewed and analyzed the financial pro forma submitted by the Developer for the Project. Tables 2 through 5 present the KMA residual value analysis for the proposed Project.

Estimated Development Costs

Table 2 summarizes estimated development costs for the Project.

Total development costs for the Project, excluding acquisition, are estimated at \$2,656,000, or \$353 per SF Gross Building Area (GBA), which equates to approximately \$443,000 per dwelling unit. Total development costs consist of the following:

- Direct construction costs, such as off-site improvements, on-site improvements, building construction, and contingency. The total direct costs are estimated to be \$1,793,000, or \$238 per SF GBA. The estimate of direct costs does not assume the payment of prevailing wages.
- Indirect costs, such as architecture and engineering, permits and fees, legal and accounting, taxes and insurance, developer fee, marketing/lease-up, and contingency. These are estimated to be \$822,000, or 45.8% of direct costs.
- Financing costs, including loan costs and title/recording/escrow fees are estimated at \$41,000, or 2.3% of direct costs.

Net Present Value of Mortgage Payments to Developer (Net Sales Proceeds)

Tables 3 and 4 present an estimate of the net proceeds from sale of the Homes in the Project. Net sales proceeds are based on the net present value of the mortgage payments to the Developer. The maximum mortgage amount that can be supported by Very Low-Income and Low-Income homebuyers are calculated in accordance with California Health and Safety Code (H&SC) §50052.5. The mortgage payments (per-unit) are based on the appropriate household size for a given unit size and specific income thresholds. Per H&SC §50052.5, assignment of household size is based on the number of persons exceeding the number of bedrooms by one, as follows:

Unit Size	Assumed Household Size
Three Bedroom	4.0 Persons

Based on this information and AMI figures for the County of Riverside, as determined by the State of California Department of Housing and Community Development (HCD) for 2022, the maximum supportable mortgage amounts for the Very Low-Income and Low-Income units are as follows:

Unit Size	Income Level	Maximum Supportable Mortgage
Three Bedroom	Very Low-Income	\$147,000
Three Bedroom	Low-Income	\$255,000

The estimates of maximum supportable mortgage amounts assume that the Developer provides 30-year, 0% interest financing to each homebuyer. The below-market financing offered to the homebuyers substantially reduces the present value of the revenue stream received by the Developer. Assuming a 30-year term, the Developer is expected to receive monthly payments of \$408 for each Very Low-Income unit and \$708 for each Low-Income unit. The present value of this 30-year stream of payments, discounted at 4.5%, is estimated to average \$91,000 per Home, reflecting total gross sales proceeds of \$545,000. The net proceeds to the Developer total \$529,000, after consideration of \$16,000 in transaction costs, as shown below.

Net Present Value of Mortgage Payments to Developer	Total
Present Value of Mortgage Payments to Developer	\$545,000
(Less) Transaction Costs	(\$16,000)
Net Present Value of Mortgage Payments to Developer	\$529,000

Supportable Funding Sources

As shown in Table 5, KMA estimates total available funding sources for the Project comprised of the following sources. The Developer has obtained an award of funding from the County of Riverside in the amount of \$1,313,417.

Proceeds to Developer	Amount
Net Sales Proceeds	\$529,000
County of Riverside	\$1,313,000
Grants/Donations	\$114,000
Total Proceeds to Developer (Rounded)	\$1,956,000

The total funding sources of \$1,956,000 represent reasonable estimates of the maximum amounts available for each funding source. The Developer bears the risk of pursuing these funding sources to ensure financial feasibility of the Project.

Residual Land Value

Table 5 also presents the KMA estimate of residual land value for the Property. The residual land value can be estimated as the difference between total available funding sources and total development costs. The comparison of total funding sources and total development costs yields a residual land value of the Property of *negative* \$700,000, as shown below.

Residual Land Value	Amount
Total Sources of Funds	\$1,956,000
(Less) Total Development Costs – Excluding Acquisition	(\$2,656,000)
Residual Land Value	(\$700,000)

Conclusion

Based on the foregoing analysis, KMA concludes that the fair re-use value of the Property is *negative* \$700,000.

V. THE COMPENSATION WHICH THE DEVELOPER WILL BE REQUIRED TO PAY

This compensation to be received by the City for the Property under the terms of the Agreement is estimated to be *negative* \$700,000.

Compensation to be Received by the City	Amount
Purchase Price	\$561,000
(Less) Purchase Money Loan	(\$561,000)
(Less) Construction Loan	(\$700,000)
Compensation to be Received by the City	(\$700,000)

VI. EXPLANATION OF THE DIFFERENCE, IF ANY, BETWEEN THE COMPENSATION TO BE PAID TO THE CITY BY THE PROPOSED TRANSACTION AND THE FAIR MARKET VALUE OF THE INTEREST TO BE CONVEYED AT THE HIGHEST AND BEST USE CONSISTENT WITH THE REDEVELOPMENT PLAN

The fair market value of the interest to be conveyed at its highest and best use is estimated by KMA to be \$561,000.

The compensation to be paid to the City pursuant to the Agreement is estimated by KMA to be *negative* \$700,000.

Factors affecting the difference in compensation to the City and fair market value of the interest to be conveyed at highest and best use include:

- The Project will consist of for-sale homes restricted to Very Low- and Low-Income households for 45 years.
- The Developer plans to provide interest-free, long-term senior or first lien financing to the homebuyers.

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

The Redevelopment Plan (Plan) for the Redevelopment Project Area governs the Property. In accordance with Section 33490 of the California Community Redevelopment Law, the Plan contains the goals and objectives and the projects and expenditures proposed to eliminate blight within the Project Area. These blighting factors include:

- 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.

Implementation of the proposed Agreement can be expected to assist in the alleviation of blighting conditions through the following:

- Consolidation of irregular parcels into a site appropriate for development.
- Elimination of conditions of economic dislocation such as fragmented ownership patterns.
- Creation of housing opportunities for Very Low- and Low-Income residents.

VIII. LIMITING CONDITIONS

The estimates of re-use value and fair market value at the highest and best use contained in this Summary Report assume compliance with the following assumptions:

1. The ultimate development will not vary significantly from that assumed in this Report.
2. The title of the Property is good and marketable; no title search has been made, nor have we attempted to determine the ownership of the property. The value estimates are given without regard to any questions of title, boundaries, encumbrances, liens or encroachments. It is assumed that all assessments, if any are paid.
3. The Property will be in conformance with the applicable zoning and building ordinances.
4. Information provided by such local sources as governmental agencies, financial institutions, realtors, buyers, sellers, and others was considered in light of its source, and checked by secondary means.
5. If an unforeseen change occurs in the economy, the conclusions herein may no longer be valid.
6. The Developer will adhere to the schedule of performance described in the Agreement.
7. Both parties are well informed and well advised and each is acting prudently in what he/she considers his/her own best interest.
8. KMA is not advising or recommending any action be taken by the City with respect to any prospective, new, or existing municipal financial products or issuance of municipal securities (including with respect to the structure, timing, terms, and other similar matters concerning such financial products or issues).
9. KMA is not acting as a Municipal Advisor to the City and does not assume any fiduciary duty hereunder, including, without limitation, a fiduciary duty to the City pursuant to Section 15B of the Exchange Act with respect to the services provided hereunder and any information and material contained in KMA's work product.
10. The City shall discuss any such information and material contained in KMA's work product with any and all internal and/or external advisors and experts, including its own Municipal Advisors, that it deems appropriate before acting on the information and material.

attachments

TABLE 1

**PROJECT DESCRIPTION
HABITAT WAY II
CITY OF TEMECULA**

I. Site Area	0.46 Acres	
II. Gross Building Area (GBA)		
Net Residential Area	7,530 SF	
Common Areas	<u>0</u> SF	
Total Gross Building Area	7,530 SF	
III. Construction Type	Type V	
IV. Number of Stories	2 Stories	
V. Unit Mix	<u>Number of Units</u>	<u>Average Unit Size</u>
Three Bedroom	6 Units	1,255 SF
VI. Affordability Mix		
50% AMI - Very Low	5 Units	83%
80% AMI - Low	<u>1</u> Unit	<u>17%</u>
Total	6 Units	100%
VII. Parking		
Parking Type	Attached Garage	
Total Parking Spaces	12 Spaces	
Parking Ratio	2.0 Spaces/Unit	

TABLE 2

**ESTIMATED DEVELOPMENT COSTS
HABITAT WAY II
CITY OF TEMECULA**

	<u>Totals</u>	<u>Per Unit</u>	<u>Comments</u>
I. Direct Costs (1)			
Off-Site Improvements (2)(3)	\$37,948	\$6,325	\$2 Per SF Site
On-Site Improvements/Landscaping (3)	\$330,498	\$55,083	\$16 Per SF Site
Parking	\$0	\$0	Included below
Shell Construction (3)	\$1,210,620	\$201,770	\$161 Per SF GBA
Amenities/FF&E	\$0	\$0	Allowance
Contingency	<u>\$214,131</u>	<u>\$35,689</u>	13.6% of Directs
Total Direct Costs	\$1,793,197	\$298,866	\$238 Per SF GBA
II. Indirect Costs			
Architecture & Engineering	\$229,862	\$38,310	12.8% of Directs
Permits & Fees (2)	\$216,885	\$36,148	\$29 Per SF GBA
Legal & Accounting	\$30,960	\$5,160	1.7% of Directs
Taxes & Insurance	\$48,180	\$8,030	2.7% of Directs
Developer Fee	\$292,465	\$48,744	9.1% of Total Costs
Marketing/Sales	\$3,714	\$619	0.2% of Directs
Contingency	<u>\$0</u>	<u>\$0</u>	0.0% of Indirects
Total Indirect Costs	\$822,066	\$137,011	45.8% of Directs
III. Financing Costs			
Loan Fees (4)	\$15,050	\$2,508	0.8% of Directs
Title/Recording/Escrow	<u>\$25,800</u>	<u>\$4,300</u>	1.4% of Directs
Total Financing Costs	\$40,850	\$6,808	2.3% of Directs
IV. Development Costs - without Acquisition	\$2,656,113	\$442,686	\$353 Per SF GBA
Or Say (Rounded)	\$2,656,000		

- (1) Excludes the payment of prevailing wages.
- (2) Per Developer; not verified by the City or KMA.
- (3) Includes pro rata share of general requirements, contractor overhead, and contractor profit.
- (4) Reflects interest on construction loan from Developer's parent company.

TABLE 3

**ESTIMATED SUPPORTABLE MORTGAGE, BY AMI LEVEL
HABITAT WAY II
CITY OF TEMECULA**

	50% AMI Very Low	80% AMI Low
A. Percent of AMI	50%	70%
Number of Bedrooms	Three	Three
Assumed Family Size (1)	4.0	4.0
B. Household Income (2)	\$43,700	\$61,180
Income Allocation to Housing	30%	30%
Amount Available for Housing	\$13,110	\$18,354
C. Annual HOA (3)	\$1,200	\$1,200
Annual Utilities (4)	\$3,336	\$3,336
Annual Homeowner Insurance (5)	\$1,463	\$1,463
Tax Rate (6)	1.50%	1.50%
Annual Taxes (7)	\$2,205	\$3,825
D. Available for Mortgage	\$4,907	\$8,531
E. Interest Rate	0.0%	0.0%
F. Maximum Supportable Mortgage	\$147,000	\$256,000

(1) As assigned by California Redevelopment Law.

(2) State of California Department of Housing and Community Development (HCD) 2022 income limits.

(3) Allowance for structure insurance, maintenance, and reserves.

(4) Per the Housing Authority of the County of Riverside 2022 Utility Allowance (Detached House) July 1, 2022. See Worksheet A.

(5) Per Developer correspondence dated 9/29/22, reflects homeowner insurance based on County of Riverside industry standard of 0.30% of market-rate sales price.

(6) Per Developer correspondence dated 9/29/22, reflects the base tax rate for the area plus an additional amount to account for special assessments.

(7) Based on affordable unit price. Property tax assessment may be based on actual market value of home.

TABLE 4

**ESTIMATED PRESENT VALUE OF PAYMENTS TO DEVELOPER
HABITAT WAY II
CITY OF TEMECULA**

	<u>50% AMI Very Low</u>	<u>80% AMI Low</u>
I. Sales Price per Home - Unrestricted Market Value (1)	\$487,500	\$487,500
II. Homebuyer Sources of Funds		
A. 1st Deed of Trust - Habitat	\$147,000	\$256,000
B. 2nd Deed of Trust - City Purchase Money Loan	\$93,500	\$93,500
C. 3rd Deed of Trust - City Construction Loan	\$117,000	\$117,000
D. 4th Deed of Trust - Habitat "Silent Second" Loan	<u>\$130,000</u>	<u>\$21,000</u>
E. Sales Price per Home - Unrestricted Market Value	\$487,500	\$487,500
III. Calculation of Loan Payments		
1st Mortgage - Habitat for Humanity	\$147,000	\$256,000
Interest Rate	0.0%	0.0%
Term (Years)	30	30
Annual Payment	\$4,900	\$8,500
Monthly Payment	\$408	\$711
IV. Present Value of Mortgage Payments to Developer - Per Unit @ 4.5% Discount Rate	\$81,000	\$140,000
V. Present Value of Mortgage Payments to Developer - Total		
Number of Units	5	1
Total Present Value of Mortgage Payments to Developer	\$405,000	\$140,000
(Less) Transaction Costs @ 3.0% of Value	<u>(\$12,000)</u>	<u>(\$4,000)</u>
Net Present Value of Mortgage Payments to Developer	\$393,000	\$136,000
Total Net Present Value of Mortgage Payments to Developer		\$529,000

(1) Per Developer; reflects estimate of market-rate prices (\$388 per SF).

TABLE 5**RESIDUAL LAND VALUE
HABITAT WAY II
CITY OF TEMECULA**

	<u>Total</u>	<u>Per Unit</u>
I. Net Sales Proceeds	\$529,000 (1)	\$88,000
II. Sources of Funds		
County of Riverside	\$1,313,000	\$219,000
Grants/Donations	<u>\$114,000</u>	<u>\$19,000</u>
Total Sources of Funds	\$1,427,000	\$238,000
III. Total Proceeds to Developer	\$1,956,000	\$326,000
IV. (Less) Development Costs - Excluding Land Acquisition	<u>(\$2,656,000)</u>	<u>(\$443,000)</u>
V. Residual Land Value	<u>(\$700,000)</u>	<u>(\$117,000)</u>

(1) Reflects net present value of mortgage payments to Developer. See Table 4.

WORKSHEET A

UTILITY ALLOWANCES

HABITAT WAY II

CITY OF TEMECULA

A. Utilities (Annual) (1)

Number of Bedrooms	3
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Electric Heat	\$36
Electric Cooking	\$14
Electric Water Heater	\$33
Other Electric (SCE)	\$72
Air Conditioning	\$34
Water	\$29
Sewer	\$33
Trash Collection	<u>\$27</u>
Total Utilities	\$278

B. Total Annual Utilities	\$3,336
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(1) Profile per Developer response dated 9/29/22. Source: Housing Authority of the County of Riverside 2022 Utility Allowance (Detached House) July 1, 2022.