

CITY COUNCIL REGULAR SESSION

Resolution authorizing the City Manager or his designee to execute all documents necessary for the City to exercise its right of first refusal to purchase an affordable housing unit (unit 3, building 3-2) at Lakemont Ridge for an amount not to exceed \$365,000 plus applicable closing costs using City Housing Funds.

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EXECUTIVE SUMMARY

Staff is recommending that the City exercise its right of first refusal to purchase Lakemont Ridge unit 3, building 3-2 (the "Unit") in certain conditions. The Unit was required to be sold and maintained as an affordable unit as a result of the City's land use code requirements. The current owner is facing foreclosure. In order to ensure that the unit remains affordable, if no qualified buyer comes forward to purchase the unit prior to the deadline set for foreclosure, the City would purchase the unit and take steps to ensure continued affordability.

RECOMMENDATION

Move to adopt Resolution No. 9599
If approved, effective date: 05/28/2019

BACKGROUND/ANALYSIS

Lakemont Ridge Condominiums were developed by Polygon Northwest in 1995 under the City's then-applicable mandatory affordable housing program, which required the developer record an affordable housing covenant for each unit built. Under this program, Polygon included 25 condominiums affordable at 80 percent median income with restrictive purchase and resale covenants for 50 years (attachment A). No public funds were used to subsidize these units.

In April 2019, the City became aware that one of the Lakemont Ridge affordable units was facing foreclosure proceedings. After reviewing the affordable housing covenant, it was determined the City has a right of first refusal that would allow the City to purchase the unit to avoid foreclosure. The purpose of the purchase would be to ensure that the unit remains affordable and is not lost to foreclosure.

Sale of the Unit must be completed before June 30, 2019 to avoid completion of foreclosure and loss of the affordable covenant. Council action is requested at the May 28 Study Session.

In recent years the owner has failed to maintain the home and has fallen behind on homeowner dues. The issue is one of unfortunate life-circumstances, not fraud or covenant non-compliance. Although the owner has failed to manage its obligations of home-ownership, appreciation of the property will net the owner an estimated \$160,000 after selling costs, the satisfaction of mortgages, liens, penalties, and the cost to rehabilitate the property (rehabilitation amount could change).

The Homeowners Association (HOA) served a notice of foreclosure to the owner, but not to the City or ARCH, and a sheriff's sale was scheduled for May 2019. ARCH received notice of the pending sheriff's sale after the owner's real estate agent contacted ARCH for pricing information. Subsequent negotiations with the HOA resulted in it agreeing to cancel the sheriff's sale of the unit until June 30 to allow time to market and sell the unit. Under normal circumstances, a new income qualified buyer might be found before foreclosure. However, the interior of the home needs extensive rehabilitation estimated at \$44,365 (attachment C). Although the rehabilitation cost will be paid from the owner's proceeds of sale, as required under the affordable housing covenant, the fact that work is required may delay an optimal sale to a qualified buyer. The City would purchase the Unit only if a buyer is not found before the foreclosure period.

There are several benefits to exercising the City's right under the covenant to purchase the home, including maintaining affordability by eliminating the loss of the unit to foreclosure and ensuring the necessary improvements are made. In addition, if the City does purchase the unit, we would engage the Council at that time about resale or other management of the unit, which would allow consideration of additional benefits, such as resetting the price to lower affordability levels.

The ARCH resale formula maximum price for the Unit is \$433,000. The owner's agent has listed the home at \$365,000. With Council direction, Bellevue's Housing Fund would be used to purchase the home at an amount not to exceed \$365,000 plus applicable closing costs. If the City purchases the Unit, we will engage Council at a future date about the terms of resale or other management of the unit as part of the City's overall affordable housing strategy.

POLICY & FISCAL IMPACTS

Policy Impact

Bellevue's Affordable Housing Strategy

A-1. Partner with non-profit organizations and housing agencies to fund the purchase of existing, affordable multi-family housing to preserve it for the long term.

Bellevue Comprehensive Plan Housing Element

HO-21. Address the entire spectrum of housing needs, including the need for housing affordable to very low, low, and moderate-income households, through the City's affordable housing programs.

HO-27. Encourage preservation, maintenance and improvements to existing affordable housing.

HO-30. Ensure that all affordable housing created in the City with public funds or by regulation remains affordable for the longest possible term.

Fiscal Impact

Up to \$365,000 plus applicable closing costs from the City's Housing Fund would be used to purchase the home. Depending on future direction on the use of the unit, should the City purchase it, some of that expense may be recovered in a future sale.

OPTIONS

1. Adopt the Resolution authorizing the City Manager or his designee to execute all documents necessary for the City to exercise its right of first refusal to purchase an affordable housing unit (unit 3, building 3-2) at Lakemont Ridge for an amount not to exceed \$365,000 plus applicable closing costs using City Housing Funds.
2. Do not adopt the Resolution and provide alternative direction to staff.

ATTACHMENTS & AVAILABLE DOCUMENTS

- A1. Lakemont Ridge Condominium Covenant Restricting Resale and Option to Purchase
 - A2. Assumption Agreement
 - B. Notice of foreclosure, Lakemont Ridge Homeowners Association vs Williams-Baker
 - C. Estimated rehabilitation cost
- Proposed Resolution No. 9599

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N/A