

**CITY OF PALM DESERT/ PALM DESERT HOUSING AUTHORITY
JOINT CONSIDERATION
STAFF REPORT**

MEETING DATE: February 27, 2025

PREPARED BY: Celina Cabrera, Senior Management Analyst

SUBJECT: AUTHORIZE THE EXECUTIVE DIRECTOR TO NEGOTIATE AND ACQUIRE FINANCIALLY DISTRESSED PROPERTIES WITH AN AFFORDABLE RESTRICTED AGREEMENT FOR THE CITY OF PALM DESERT AND/OR PALM DESERT HOUSING AUTHORITY

RECOMMENDATION:

1. Authorize the Executive Director, or designee, to initiate acquisitions and resale of properties with affordability covenants that are subject to time-sensitive financial distress, such as a Notice of Default, Foreclosure or Bankruptcy, to prevent loss of housing from the affordable housing portfolio.
2. Authorize the Executive Director, or designee, to execute all necessary documents to facilitate the acquisition, repair, and resale of the subject properties, ensuring they remain affordable, restricted, and available to income-qualified homebuyers.

BACKGROUND/ANALYSIS:

There are two key for-sale single-family affordable housing developments in Palm Desert: Desert Rose and Falcon Crest. Developed by the former Palm Desert Redevelopment Agency in 1994, Desert Rose is a development consisting of 161 single-family homes located two blocks east of Cook Street on Fred Waring Drive. The Palm Desert Housing Authority (Authority) has been able to ensure that these homes remain affordable by recording on title for each of the homes a 30-year or 45-year affordability covenant that gives the Authority the right to re-purchase the homes at a resale price determined by a predetermined formula (Affordability Covenant).

Falcon Crest, also developed by the former Palm Desert Redevelopment Agency and the City of Palm Desert (City), consists of 93 single-family homes that were made available to households of restricted income. Buyers in Falcon Crest have received assistance from both the City and the Authority in the form of silent second and third trust deeds. Similar to Desert Rose, Falcon Crest homes have recorded restrictions that ensure affordability for 45-years and require that buyers must meet certain minimum qualifications.

The Authority and the City also hold the first right of refusal to purchase additional homes throughout the City with a recorded Affordable Housing Restrictive Agreement (Agreement).

Occasionally, homeowners, external agencies, or financial institutions notify the Authority and City when a property subject to the Restrictive Agreement is in default, included in bankruptcy proceedings, or facing foreclosure. If the financial distress leads to foreclosure proceedings or

sale to a third party, it is possible that the Agreement may be nullified, removing the property from the affordable housing portfolio and eliminating the possibility of making it available to income-qualified homeowners.

The Authority has not had to intervene in the past several years as the housing market has been favorable and buyers have been able to maintain their investments in the program. However lately, staff has begun to see increased activity in both bankruptcy and default notices.

Under normal circumstances, homeowners are required to notify the Authority and/or City of their intent to sell an affordability restricted home, allowing staff time to facilitate a direct sale to a qualified purchaser from an interest list. However, in cases of default, bankruptcy, or foreclosure, there may be insufficient time to arrange such a direct sale. Therefore, it has been customary that the Authority/City purchase the property directly, make any necessary improvements, and coordinate resale to a qualified buyer from the interest list.

If the Authority/City does not promptly exercise its option to purchase a home in financial distress, it is possible that the property may be sold on the open market at full market prices. In such cases, the Authority/City may be unable to recover any outstanding loans extended to the property, and the Affordability Covenant may be lost.

To remain nimble and responsive to imminent deadlines, staff recommends in these financial distress cases, that the Executive Director, or his designee, be provided authorization to negotiate, acquire, improve, and resell the property to a qualified buyer. A full report of the transaction will be provided to City Council at the close of escrow following the resale of the unit.

Legal Review:

This report has been reviewed by the City Attorney's Office.

FINANCIAL IMPACT:

The potential financial impact to the Authority/City may be one or all of the cost of property acquisition, repairs, carrying costs, and closing costs- an estimate of costs for the purchase of a single home is included below for reference. Allowing the home's disposition through the default or bankruptcy process may result in the loss of the property from the affordable housing portfolio as well as the original gap financing provided in the original purchase. The intent of acquiring the property would be for the Authority/City to resell the property to a qualified household and recover the costs. Funds for this purpose are available in the Housing Asset Fund and Housing Mitigation Fund, therefore there is no impact to the General Fund.

Estimated Cost to Maintain Covenant	Amount
Average Calculated Resale Price	\$205,950
Estimated Closing Costs	\$25,000
Estimated Repair Costs	\$50,000
Estimated Carrying Costs	\$1,500
Average Affordability Loan(s) to Homebuyers	\$40,000
Est. Max Estimated Cost to Maintain Desert Rose Covenant	\$322,450

ATTACHMENTS:

1. List of Affordable Properties with Restrictive Covenants