

City of Watsonville
Community Development Department



M E M O R A N D U M

DATE: December 11, 2023

TO: CITY COUNCIL

FROM: COMMUNITY DEVELOPMENT DIRECTOR MERRIAM
HOUSING MANAGER LANDAVERRY

THROUGH: CITY MANAGER MENDEZ

**SUBJECT: APPROVE SUBORDINATION AGREEMENT FOR AFFORDABLE
HOUSING REGULATORY AGREEMENT IN CONNECTION TO A LOAN
TO IDEAL EVERGREEN, L.P., BORROWER, FROM WALKER &
DUNLOP, LLC, LENDER, RELATED TO BORROWER'S PURCHASE OF
THE EVERGREEN APARTMENTS**

AGENDA ITEM: December 12, 2023

City Council

RECOMMENDATION

Staff recommends that the City Council (i) approve the Subordination Agreement for the Regulatory Agreement that restricts the use of the Evergreen Apartments located at 50 Hollow View Lane in Watsonville (Property) to an affordable housing development, and (ii) authorize the City Manager to execute the Subordination Agreement.

DISCUSSION

In 1985 the City of Watsonville (City) entered into a ground lease agreement with Evergreen Apartments, LLC to lease 50 Hollow View Lane (the "Property"). In 2009, Evergreen Apartments, LLC purchased the Property from the City using a \$1 million loan from the former Redevelopment Agency and a purchase money mortgage from the City in the amount of \$228,000. The Property is subject to a Regulatory Agreement with the City which restricts the use of the Property to an affordable housing development that includes 37 units. The purchase money loan of \$228,000 from the City has been paid in full and the balance of the \$1 million loan will be paid off at the closing on the Property.

Evergreen Apartments, LLC now desires to transfer ownership of the Property to Buyer/Borrower. In connection with that transaction, Buyer/Borrower has requested that the City subordinate the Regulatory Agreement to Lender's trust deed, as required by Lender. Lender anticipates that the loan will be sold to Fannie Mae following the closing on the Property, which means that terms and conditions of the Subordination Agreement must conform to Fannie Mae's strict standards.

The City Attorney's office negotiated the terms and conditions of the Subordination Agreement with Borrower's counsel and Lender's counsel, such that to ensure that City's interest in having the Property remain as an affordable housing community is protected.

Based on the foregoing, staff recommend that the City Council approve the Subordination Agreement and authorize the City Manager to execute the same.

STRATEGIC PLAN

The recommended action supports the City's Strategic Goal of Housing by preserving existing affordable housing for Watsonville residents.

FINANCIAL IMPACT

The recommended action will not impact the General Fund.

ALTERNATIVES

The Council could choose not to approve the proposed Subordination Agreement at this time, and therefore the proposed purchase and sale transaction for the Property would not proceed.

ATTACHMENTS

cc: