RINCON INVESTMENTS, LLC

April 9, 2020

Community Development Commission
Santa Fe, NM

Re: Zocalo Phase 5 Alternative Means of Compliance

To the Community Development Commission,

This letter will outline our plan to meet the affordable housing requirements for Zocalo Phase 5, the final phase of Zocalo, and provide a summary of the affordable housing status. As stated in earlier discussions, Zocalo is an unfinished project approved for 301 condominiums with only 245 condominiums built to date.

Zocalo was started by Foothills Estates, LLC in 1999 and went into foreclosure in 2009 without starting Phase 5 and leaving Phase 4 halfway constructed. Zocalo is operated and maintained by the Zocalo Condominium Owners Association (COA) which urgently needs the entire balance of all the planned units in order to operate efficiently and effectively. Due to the extended period of time it has taken to finish all of the units at Zocalo, the current residents have experienced substantial increases in COA fees to help cover the maintenance and upkeep of the property.

Rincon Investments, LLC purchased Zocalo out of foreclosure at the height of the recession with the intention of completing Phase 4B and Phase 5. Phase 4B was completed in 2015. Phase 5 for Zocalo is 56 units and we will be required to deliver 6 affordable units upon full build-out. Phase 5 will be built in a series of pods and is required to deliver 1 affordable unit per every 9 units that are built. Phase 5's Pod A is currently under construction on four units, and Pod B is set to begin construction early next year. Pod B contains 16 units.

Phase 5 has the most challenging topography of all the phases of Zocalo and is going to require an extensive network of retaining walls, new roads, and miles of new utilities for the development to be completed. Phase 5 will have the highest infrastructure costs per unit resulting in an incredibly high cost to deliver a single unit. We have received bids to complete the project, and the estimated costs to build one unit to completion is approximately $505,000. The sales price for the average affordable unit will be an average of $120,000, resulting in a $385,000 loss per unit. The total loss on the six affordable units will be $2,310,000. The estimated loss will make the project unfeasible and will prevent the project from moving forward into Pod B.

In 2015, Rincon Investments requested an Alternative Means of Compliance from the Community Development Commission (CDC) seeking flexibility in the delivery of the 6 units to accommodate the financial hardship of completing the project. The CDC approved an Alternative Means of Compliance for Phase 5 resulting in 3 existing units to be delivered or converted from existing and the final 3 units would be able to pay a fee-in-lieu of $66,000 each. At the time Rincon accepted the offer because many home sales within Zocalo were still in the $220,000 to $280,000 range. Since that time, the home sales prices have escalated dramatically making it extremely difficult to find anything under $330,000. Based on Exhibit A, the last ten sales have averaged $366,284, which would result in a loss of $246,284 per conversion from market rate to affordable. It has now become overly burdensome to convert an existing unit or build new within Zocalo to comply with the Alternative Means of Compliance.

Therefore, Rincon Investments is requesting a new Alternate Means of Compliance. Rincon Investments will propose two options for the Community Development Commission to vote on to decide which option is most beneficial to the City of Santa Fe.

Option A for an Alternative Means of Compliance is to pay a fee-in-lieu for all 6 required affordable units equivalent to the price an affordable buyer would pay for a home in Santa Fe. Rincon Investments is proposing to pay a fee-in-lieu of $120,000 for each of the 6 required affordable units. If granted the approval to pay the fee-in-lieu, Rincon will pay one fee-in-lieu prior to the final certificate of occupancy of every 9 market rate units.

Furthermore, the fee-in-lieu from the 6 units equal to $720,000 dollars can be leveraged into down payment assistance or other affordable homeownership needs and used on a community wide basis, providing essential support for potential homebuyers. The $720,000 could place significantly more individuals into housing than the 6 units which would be provided at Zocalo if the fee-in-lieu is not accepted. The fee-in-lieu is the preferred Alternative Means of Compliance option for Rincon Investments.

Additionally, the Zocalo HOA is in full support of the fee-in-lieu option. The HOA has struggled since the first phase of Zocalo to capture the monthly association dues from existing affordable owners. What has resulted is an extensive back log of past dues from the affordable owners because many of them do not pay their monthly association dues. Exhibit B portrays the top ten accounts receivable (AR) for HOA monthly dues for every year since January 1, 2015 (names have been removed for privacy). Zocalo has 22 affordable units out of 191 total units or 11.5% yet the affordable owners are usually 30-40% of the top ten AR accounts and collectively owe as much as the market owners comparatively. The HOA has the legal authority to lien their properties, which it does regularly for non-payment of dues. However, when the property does go for sale or is foreclosed upon, the liens are always negotiated and typically less than 50% is recovered. Many affordable owners within Zocalo continually fall behind on HOA payments, and it comes at the expense of the other due paying condo owners within the community.

On another note, Rincon Investments did convert a market rate unit to an affordable unit in 2015. The unit sat on the market for 18 months before an affordable buyer finally purchased the unit. The Zocalo condominiums are not designed for the affordable buyer and selling affordable units within Zocalo is very challenging. Zocalo is ideal for an older demographic over the age of 60, who doesn't want a backyard, and wants a smaller home. The Zocalo housing type is not what affordable buyers want for their home. Ron Chavez of the Santa Fe Community Housing Trust completed a "Buyer Analysis" for Zocalo and his letter of support can be found in Exhibit C.

Option B for an Alternative Means of Compliance is to allow for the purchase of 3 existing market rate units within the city limits of Santa Fe and convert them to affordable housing and pay a fee-in-lieu of $100,000 for the other 3. Rincon Investments would purchase 3 market rate homes over the first 27 units built in Phase 5 and have a home for sale to affordable buyers at a rate of 1 home per every 9 units built at Zocalo. For the final 29 units, Rincon would pay a fee-in-lieu for every 9 units built for a total of $300,000.

Without an alternate means of compliance, phase 5 will not happen. Until there is full build out of Zocalo, the fees will continue to escalate to keep up with maintenance. In addition, there are also community-wide benefits to be realized if the build out is to proceed. Zocalo Phase 5 is set to create 300 jobs over the course of a three year build out, and provide a tangible boost to Santa Fe's economy. The City of Santa Fe would also benefit from an estimated gross receipts tax of $2,064,000 based on $24,360,000 in hard construction costs and general contractor fees. There are also permitting and water conservations fees of $200,000.

We very much appreciate the consideration for an Alternate Means of Compliance. We strongly feel that it is in the best interest of the existing Zocalo residents who contribute to the Zocalo COA to finish phase 5 of the project as soon as possible. We think option A is the preferred Alternative Means of Compliance for Rincon Investments, the City of Santa Fe, and the COA. Option A will place more individuals into affordable housing than option B.

Please call me to clarify any of the conditions outlined in this letter. Thank you for all your help.

Sincerely,

Josh Rogers
Rincon Investments, LLC

Exhibit A

Recent 10 Sales at Zocalo						
	Address	SF	Sales Price	PSF	Beds	Baths
1	1250 Avenida Morelia #105	1,039	$ 308,000	$ 296.44	1	1
2	601 Circulo de Morelia	1,039	$ 309,900	$ 298.27	1	1
3	1250 Avenida Morelia	1,408	$ 327,500	$ 232.60	2	1
4	608 Avenida Villahermosa, 205	1,148	$ 335,000	$ 291.81	2	2
5	604 AVENIDA VILLAHERMOSA	1,108	$ 344,000	$ 310.47	2	2
6	604 Avenida Villahermosa	1,148	$ 345,000	$ 300.52	2	2
7	604 Avenida Villahermosa	1,148	$ 350,000	$ 304.88	2	2
8	603 Avenida Colima	1,477	$ 421,438	$ 285.33	2	2
9	608 Avenida Villahermosa	1,464	$ 425,000	$ 290.30	2	3
10	626 Avenida Celaya	1,850	$ 497,000	$ 268.65	2	3
	Avg.	**1,283**	**$ 366,284**	**$ 287.93**		

Exhibit B – Zocalo HOA Accounts Receivable for Monthly HOA Dues

	January 1, 2015		January 1, 2016		January 1, 2017	
1	Affordable Owner A	62,422.07	Affordable Owner B	37,639.62	Affordable Owner B	41,318.83
2	Owner A	37,248.42	Owner H	9,942.34	Owner H	17,082.21
3	Owner B	34,052.88	Owner F	9,081.86	Owner F	15,177.43
4	Affordable Owner B	33,727.31	Affordable Owner A	4,196.85	Owner A	14,009.52
5	Owner C	28,453.00	Affordable Owner D	1,916.10	Affordable Owner A	12,199.94
6	Affordable Owner C	6,404.04	Owner I	1,227.60	Owner K	6,939.71
7	Owner D	2,292.18	Owner J	1,225.35	Owner E	4,011.05
8	Owner E	2,040.85	Owner G	1,141.80	Owner B	4,003.11
9	Owner F	1,599.14	Owner E	962.42	Owner L	1,605.35
10	Owner G	1,403.25	Owner B	865.09	Affordable Owner D	1,352.58
	Total Affordable AR	102,553	Total Affordable AR	43,753	Total Affordable AR	54,871
	Total Market AR	107,090	Total Market AR	24,446	Total Market AR	62,828

	January 1, 2018		January 1, 2019		January 1, 2020	
1	Affordable Owner B	45,054.00	Affordable Owner B	51,676.03	Owner F	47,929.40
2	Affordable Owner A	26,651.32	Owner F	34,841.11	Affordable Owner C	29,165.56
3	Owner F	24,734.36	Affordable Owner A	29,165.56	Affordable Owner D	22,938.35
4	Owner H	17,082.21	Owner H	17,082.21	Affordable Owner A	20,196.42
5	Affordable Owner D	6,885.42	Affordable Owner D	15,516.60	Owner A	3,307.35
6	Owner E	3,124.83	Affordable Owner C	5,728.85	Owner M	2,164.99
7	Owner A	2,701.84	Owner O	3,511.39	Owner E	1,641.74
8	Owner G	2,698.77	Owner M	2,148.73	Owner P	1,530.38
9	Owner M	2,452.53	Owner P	1,863.76	Owner Q	754.13
10	Owner N	2,448.27	Owner L	1,544.71	Owner R	730.84
	Total Affordable AR	78,591	Total Affordable AR	102,087	Total Affordable AR	72,300
	Total Market AR	55,243	Total Market AR	60,992	Total Market AR	58,059

THE HOUSING TRUST

MEMORANDUM

DATE: April 1, 2020

TO: Josh Rogers, Director of Multi-Family, Titan Development

FROM: Ronald Chavez, Santa Fe Community Housing Trust

Re: Buyer Analysis-Zocalo, Phase 5

Per City request, I have compiled and analyzed our list of 'buyer ready' clients to determine their compatibility with, and likely interest in the proposed units designated Affordable by Titan Development located at Zocalo of Santa Fe. We have determined 2 possible issues amongst our clientele that may result in locating clients to purchase these units.

First, of our 51 buyer ready individuals and families, 21 are households of 3 or more. In other words, over 40% of our clients who are ready to purchase homes would likely desire and/or require affordable or market rate homes with more living space and square footage than the units at Zocalo could provide. Consequently, a significant amount of our prospective homebuyers would likely choose to forego placement on the Priority/Interest List for the proposed units at Zocalo, Phase 5 for this reason. The units at Zocalo, given their square footage, would better serve the needs of smaller families (1 and/or 2 persons).

Second, the Homeowners Association Dues for a development like Zocalo would seriously impact the affordability of such units for two reasons—their impact on a buyer's debt ratio and monthly budget as well as their tendency to rise consistently on a yearly basis. The HOA's for the affordable units proposed in Zocalo, Phase 5 are currently estimated at $305 per month, or $3,660 annually and would have a significant effect on a buyer's mortgage amount. For example, a single buyer who earns 65% Area Median Income (with no debt) could

THE HOUSING TRUST

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ordinarily qualify for a mortgage amount of roughly $144,000 with a total principal and interest payment of $686 per month (30Y FHA Fixed Loan at 4%). That same buyer, when HOA's of $305 per month are added to their house payment, could qualify for a mortgage of roughly $99,000 with a principal and interest payment of only $456 per month. The loss of borrowing power, due to HOA's, affect lower income borrowers inordinately. While both the HOP and SFHP Programs provide for adjusting the sales price of an affordable unit downward to accommodate HOA fees upon initial purchase, this does not provide a solution for diminished purchasing power of income qualified buyers. The higher that monthly HOA fees are for buyers, the <u>less</u> the principal amount of their mortgage is reduced by their monthly payment. Consequently, these buyers earn less equity over time on a purchase of a Zocalo unit than at other developments with smaller or no monthly HOA fees.

Of the Housing Trust's 30 buyer ready clients who are households of 2 or less, the sheer cost of the HOA's would reduce the number of clients who could sustain the monthly fee, without significantly impacting their monthly budget detrimentally, to 13. This does not assume the perennially escalating HOA fees in future years. Historically, affordable buyers in previous Zocalo phases, when they have fallen into delinquency or default, have done so because they were unable to sustain the HOA fees over time. In short, the high HOA's in a development like Zocalo tend to make these units less affordable over time and, for homeowners who often already live with tight budgets, at greater risk for delinquency and default in the face of personal accident, injury, illness, or job loss. A homeowner with $3,660/year in their reserves would be better equipped to handle such situations.

For these reasons, units at Zocalo, Phase 5 may not be the best fit for a significant number of Housing Trust clients.

/RC

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