

**OFFICE OF THE CITY MANAGER
DES MOINES, IOWA**

**CITY COUNCIL COMMUNICATION 96-245
JUNE 17, 1996 AGENDA**

SUBJECT:	TYPE:	SUBMITTED BY:
SALE/CONSTRUCTION OF PROPERTIES IN CAPITOLVIEW SOUTH NEIGHBORHOOD	◆ RESOLUTION ORDINANCE RECEIVE/FILE	SCOTT A. STRICKER ECCOOMIC DEVELOPMENT ADMINISTRATOR

SYNOPSIS —

On the June 17, 1996, agenda are two roll calls to open and close public hearings on:

1. Authorizing the sale of two vacant parcels (located at 819 and 821 SE 9th St.) as excess City property; and
2. Approving the contract with Barnes Realty, L.C. d/b/a Windsboro Builders as part of the Capitolview South Affordable Housing Program to purchase the properties once the houses are constructed.

Barnes Realty, L.C. d/b/a Windsboro Builders, has submitted a proposal to build two 925-square-foot three-bedroom ranch houses in the Capitolview South Neighborhood under the Capitolview South Affordable Housing Program. In accordance with the program, at the time construction is completed, the City will purchase the homes from the developer for \$83,900 per home and then sell the homes for single-family owner-occupied residences for \$68,000 (mortgage appraisal value). Under the program, the City will subsidize the gap for each home between the cost to construct and the mortgage appraisal value.

Mike and Evie Barnes have owned Barnes Realty for the past 20 years which is now located at 717 4th Street.

FISCAL IMPACT —

The purchase price of \$83,900 per unit and associated marketing and property management costs, estimated at about \$4,000 per unit for a total of about \$176,000 are available from Account 652040 which is funded by tax increment revenues from the Riverpoint Capitol Center Urban Renewal Area. The *gap* of \$15,900 per property between the cost to construct and the selling price represents the subsidy the City would provide if it accepts the Barnes' proposal. The amount of subsidy is consistent with the subsidy provided by other similar new housing programs run by the City and local nonprofit agencies.

RECOMMENDATION —

Approval of the sale of the excess property and of the contract to purchase the properties once the houses are constructed.

BACKGROUND —

Program

The City Council previously approved the Capitolview South Affordable Housing Program which provides a *gap* financing subsidy for the difference in the cost to build a new single-family owner-occupied home in the area and the mortgage appraisal value. (The Capitolview South Neighborhood is located south of Scott Street between SE 6th St. and SE 12th St. which is in the Riverpoint Capitol Center Urban Renewal Area.) The subsidy is provided from tax increment funds from the urban renewal area.

The Capitolview South Affordable Housing Program requires that houses built through this program must meet certain minimum requirements relating to house size (the house must have a basement or a 1 -1/2 car garage), exterior appearance, landscaping, and other items similar to the single family homes being built in the Logan Urban Renewal Area. Weatherization standards must also be met to minimize utility costs for the home buyer as well as providing some assurance that the home will not need energy assistance from the City in the near future.

Proposal

The City Council, at its May 20, 1996, meeting, received a proposal from Barnes Realty, L.C. d/b/a Windsboro Builders, to construct two homes in the neighborhood. The cost to construct each home is \$83,900. Iowa Residential Appraisal Company has provided a report for each property which shows an *as complete* mortgage appraisal value of \$68,000; the subsidy gap for each home is \$15,900. The mortgage appraisal value typically represents the maximum value a bank will loan for a mortgage and is the price the City can expect to sell the property for when the house is constructed.

At the time the construction is completed, the City will purchase the homes from the developer for \$83,900 per home and then sell the homes for \$68,000.

The market for new homes in this selling price range is very competitive. Because of this developer's experience in constructing and marketing this house design throughout the City, it is believed that selling these houses will not be as difficult as the first two Capitolview South homes. However, it should be recognized that while these homes are in the affordable range, these houses have restrictions that limits their market appeal. (These restrictions are the requirements that the buyer live in the house for 10 years or pay a pro-rated portion of the subsidy back and no tax abatement.)

The Urban Renewal Board, after its review of the design and subsidy amount, recommended acceptance of this proposal at its meeting on May 31, 1996, subject to the provision that certain items relating to weatherization are met.

The houses to be built by the developer are a 925-sq.-ft. three-bedroom ranch design. A separate 20 x 20 ft. garage (a 1-1/2 car) garage will also be constructed. The proposal submitted by Barnes Realty, L.C. d/b/a Windsboro Builders, as the developer, states the completed houses will meet all of the program requirements.