



Agenda Report

20-960

Agenda Date: 10/27/2020

REPORT TO COUNCIL

SUBJECT

Action on a Resolution Authorizing the City Manager to Execute an Amended and Restated Affordable Housing Agreement with ZAEN Partners, LLC for construction of 150 affordable housing units located at 2302 Calle Del Mundo and Approving the Related Budget Amendment

COUNCIL PILLAR

Promote and Enhance Economic, Housing, and Transportation Development

BACKGROUND

The subject project, 2302 Calle Del Mundo, is one of several projects currently under development within the Tasman East Specific Plan. The project developer, ZAEN Partners, LLC ("Developer"), an affiliate of Ensemble Development ("Ensemble"), is the project sponsor for three infill, mixed-use projects within the Tasman East Specific Plan area that would cumulatively result in the development of approximately 969 rental apartment units, associated parking garages, up to 30,000 square feet of retail space, 4,500 square feet of leasing space, and 55,000 square feet of amenity space (collectively, the "ZAEN Tasman East Projects"). One of these, the project proposed at 2302 Calle Del Mundo, would include 150 residential rental units with approximately 5,000 square feet of retail (the "Parcel 24 Project"). The Tasman East Specific Plan includes a 10% moderate income (Mod) inclusionary housing, with a lower percentage applied for projects that meet certain density requirements.

Initially, Ensemble proposed to consolidate the inclusionary housing requirement for its three projects into one of the project sites, 2302 Calle Del Mundo. As a benefit to the City in exchange for this allowance, Ensemble proposed that the inclusionary component of the project would provide a deeper level of affordability with units designated as very low-income (VLI) affordable units. Because VLI units create a significantly greater cost to the developer than Moderate Income (Mod) units, the developer also requested that the total number of inclusionary units be reduced from 83 Mod units (spread across the three projects) to 30 VLI units (consolidated into the subject property).

On October 22, 2019 staff provided an analysis of the 30 VLI unit proposal to the City Council that concluded that the proposal would be consistent with the City's Inclusionary Housing Policy in that: 1) the value in terms of developer subsidy to the City for the 30 VLI units would be greater than the value of 83 Mod units; and 2) the provision of VLI units would be beneficial to the City toward achieving our current Regional Housing Needs Allocation (RHNA) targets as the City will be able to develop significantly more Mod units than VLI units. Based upon this analysis, the City Council approved an Affordable Housing Agreement (AHA) with ZAEN Partners, LLC for the provision of thirty (30) very low-income units at 2302 Calle Del Mundo (APN# 097-46-024).

While the City Council approved the requested AHA, recognizing the benefit of providing VLI units, the Council also expressed a desire for more affordable housing units. Following the Council's approval of the AHA, city staff and the developer worked collaboratively to propose a 100% affordable housing project with a City contribution toward the project funding. On February 25, 2020, City staff presented to City Council a proposal to develop a 100% affordable housing project at 2302 Calle Del Mundo in lieu of a market rate project with only 20% of the units restricted for very low-income residents. City Council approved a Loan Agreement with ZAEN Partners, LLC for a loan of up to \$6,000,000 to support the construction of 150 affordable housing units located at 2302 Calle Del Mundo.

The Developer has now communicated to staff that while they pursued multiple financing options, they were not able to obtain the full amount of funding needed to move the 100% affordable project forward due to availability of affordable housing funds. At the time the AHA was approved, project financing assumed funding from the State's recently launched Mixed Income Program (MIP). While the State had previously indicated MIP funding would be allocated across four rounds annually, the State allocated all of the funds in the first two rounds of 2020 so that MIP funds were not available for the project and leaving the project with a financing gap. The Developer subsequently applied for Apple Affordable Housing Funds through the Housing Trust of Silicon Valley but was not awarded funds.

The Developer is therefore now requesting Amendments to the project's Affordable Housing Agreement to implement a new financing strategy in partnership with Related California. As noted above, the City has previously determined that a reduced number of units with a deeper level of affordability would be consistent with the City's Policy. At the October 22, 2019 meeting, the City Council approved the consolidation of the moderate-income affordable requirements for three projects to provide 83 Mod units into 30 VLI affordable housing units. The revised proposal would now forego an additional 155 moderate income units tied to the Related Companies projects at Tasman East in exchange for a developer contribution to fund the balance of 120 units at 30% AMI - 80% AMI, which will ensure the project is fully financed and allow for construction of 150 affordable housing units located at 2302 Calle Del Mundo.

DISCUSSION

The City Council is being asked to grant authority to the City Manager to enter into an AHA for the Ensemble and Related California developments located at 5123 Calle De Sol, 2302 Calle Del Mundo, 2263 Calle Del Mundo, and 2300 Call De Luna/2101 Tasman Drive that would allow the inclusionary housing requirements for four projects to be consolidated into one. All four projects are located within the Tasman East Specific Plan and are subject to a 10% inclusionary housing requirement to provide Mod units based on an income of 100% of the Area Median Income (AMI), with a slight reduction in the affordable unit requirement for portions of a project that exceed minimum densities. Under the proposal, in place of 238 Mod units spread across the 4 projects, 72 VLI units (defined as affordable to households earning an average of 50% of AMI) and 77 Low Income (LI) units (defined as affordable to households earning an average of between 30% and 80% of AMI) would be developed at 2302 Calle Del Mundo.

Ensemble Projects subject to the proposed AHA

Project Name	Address	Housing Units	AHA Obligation	Planning Permit Status
Parcel 19/29	5123 Calle Del Sol	503 DU	42 units	Approved 7-17-19
Parcel 24	2302 Calle Del Mundo	150 DU	13 units	Approved 1-15-20
Parcel 60/61	2263 Calle Del Mundo	316 DU	28 units	Pending

Total: 83 units**Related California Projects subject to the proposed AHA**

Project Name	Address	Housing Units	AHA Obligation	Planning Permit Status
Market Rate	2300 Calle De Luna	509 DU	51 units	Approved 10-22-19
Assisted Living	2300 Calle De Luna	191 DU	14 units	Approved 10-22-19
	2101 Tasman Drive	900 DU	90 units	Pending

Total: 155 unitsProject Description

The project site is 0.99 acres located at 2302 Calle Del Mundo (APN# 097-46-024) in Santa Clara within the Center District of the adopted Tasman East Specific Plan. The proposed project consists of 150 mixed-income apartment units with approximately 86,520 rentable square feet and approximately 5,000 square feet of general retail.

There is a mix of studios, 1-bedroom, 2-bedroom, and 3-bedroom units ranging in size from 420 square feet to 1,207 square feet. For the new proposal, the distribution of affordable units shall be as follows:

- Fifteen (15) units rented to households with incomes at or below 30% AMI,
- Fifty-seven (57) units rented to households with incomes at or below 50% AMI,
- Sixty-seven (67) units rented to households with incomes at or below 70% AMI,
- Ten (10) units rented to households with incomes at or below 80% AMI; and
- One (1) unrestricted manager's unit.

The residential units will be constructed in a 5-story Type IIIA wood-frame building above two floors of Type IA structured parking that is partially below grade. The site design incorporates landscaped entryways at the retail corners, activating sidewalks and providing a retail streetscape experience with outdoor seating areas. The building design will complement the high-density transit-oriented urban environment envisioned for the Tasman East area. The building exterior includes various massing and design elements incorporated in the project's façade and architecturally addresses its primary street frontage on Calle Del Mundo.

The project will conform to the existing design, environmental, and efficiency standards set in the approved Conditions of Approval with just a few minor revisions to the original development scope.

Common area amenities will include a courtyard and outdoor terraces, barbecue and lounge areas, a fitness center, lobby and clubroom. The pool, however, has been removed to reduce construction costs and ongoing operating costs. Based on a review of comparable affordable and income restricted properties, pools are not a standard amenity at affordable properties in the regional market.

Project Financing

The most significant change to the proposed financing is the elimination of the City and State subsidies, which are being replaced by Ensemble and Related Companies' equity contributions. Previously, the City had committed a \$6 million subsidy loan to the project; however, those funds are no longer needed to subsidize the project given the amount of the Developer equity contribution. Instead, the City loan will now be funded via an equity contribution (not City capital) and the City will record a promissory note for \$6 million on the property entitling the City to future cash flows of up to \$6 million from the project.

The following table provides a summary of the funding strategy for the proposed project in comparison to the previously approved 100% affordable project.:

Permanent Funding Sources	Previous 100% Affordable Project	Proposed Consolidated Project
Permanent Debt:	\$35,831,000	\$34,815,000
Tax Credit Equity:	\$26,504,582	\$24,840,675
NOI During Construction:	\$922,444	\$2,322,209
City of Santa Clara Capital Loan:	\$6,000,000	\$0
State MIP Loan:	\$8,200,000	\$0
B Bond Investor:	\$3,429,339	\$0
Developer Equity Contribution:	\$4,918,225	\$18,950,001
Deferred Developer Fee:	\$4,115,729	\$5,992,156
Total Sources	\$89,921,319	\$86,920,041

Alternatives

The following analysis considers whether it would better meet the City's affordable housing goals to agree to the proposed consolidation of affordable units or to continue to require the delivery of inclusionary Mod units in each of the four developments. Per City Policy, under any scenario the affordability restriction would be in place for 55 years. The two alternatives for Council consideration are as follows:

1. Approve the proposed transaction, which provides the City with 150 low-income units and up to \$6 million cash flow (forgoes 238 moderate income units) or;
2. Do not approve the proposed transaction and receive the obligated 238 moderate income units.

The two prior approved modifications to the base requirement (e.g., 30% VLI and 100% affordable alternatives) no longer appear to be viable options. Mixed projects with VLI units are difficult under normal circumstances and increasingly so with current pressures on affordable funding sources. Other 100% affordable projects have also experienced similar challenges since the beginning of COVID-19, including the 2330 Monroe Street project, which recently requested an Amended and Restated Loan Agreement to address a change in funding strategy.

As per the City's Affordable Housing Ordinance, the City Council may authorize a total number of affordable housing units lower than the otherwise required obligation, if such units are restricted to extremely low, very low or low-income households and would represent an equal or greater amount of value in subsidy and help the City to better implement the City's Regional Housing Need Allocation ("RHNA") goals. Throughout this process, City staff and the Developer have worked collaboratively to identify options, consistent with this Policy, to consolidate the cumulative affordable housing obligations of the Developer to deliver low-income units at a single site in lieu of providing moderate affordable units within each individual project. Ultimately, any proposal to consolidate an affordable housing obligation must come before City Council and is subject to discretionary approval.

Financial Value of the Two Alternatives

The two alternatives can be compared in terms of the total reduction in rents that would be achieved relative to market conditions to assign a "value" for the affordable component of each project. This value generally corresponds to the amount of subsidy the project would provide for affordable housing. The calculations in the following tables indicate that the "value" of 238 Mod units is approximately \$16M, while the value 150 units at an average of 60% AMI is approximately \$42M.

1-bedroom Market Rate Assumptions		
\$ Rent PSF	\$4.35	Comp: Santa Clara Square
Proposed SF	735	
Estimated Rent	\$3,200	

Value of Moderate-Income Unit (100% AMI)		
Market Rent	\$3,200	
100% AMI	\$2,832	
Monthly Difference	\$368	
Annual Difference	\$4,416	
x 238 units	\$1,051,008	
Estimated Value (55 Year)	\$16,156,569	

Value of Low-Income Unit (60% AMI)		
Market Rent	\$3,200	
60% AMI	\$1,700	
Monthly Difference	\$1,500	
Annual Difference	\$18,000	

x 150 units	\$2,700,000	
Estimated Value (55 Year)	\$41,505,617	

In addition to the significant economic value in favor of the City, the City will receive additional value as these low-income units will be delivered sooner than the moderate-income units which would be distributed over projects with later development timelines.

Progress toward the City's RHNA targets is also an important consideration. The agreement to consolidate affordable housing units at deeper affordability levels is an opportunity to diversify the City's affordable housing pipeline and produce low-income units in the near term. The City will have a steady stream of moderate-income units (100% AMI) created through its Affordable Housing Ordinance. Affordable units at deeper levels of affordability that are not required under the Affordable Housing Ordinance would otherwise need correspondingly higher levels of public subsidies, which typically include competitive State and County, capital contributions (or land contribution). Based on the City's projected pipeline and the difficulty creating lower income units, consolidation of moderate-income units in some situations is an important strategy to deliver units with deeper levels of affordability where the City generally wouldn't be able to create these levels of affordability otherwise.

Based on this analysis, staff supports the Developer's proposal to consolidate its affordable housing obligation to deliver low-income units at a single site in lieu of providing moderate affordable units within each individual project. The Tasman East Specific Plan allows for up to 4,500 units to be built. It appears very likely that number will be reached (or possibly exceeded if the Specific Plan is amended), which would conservatively produce 400 units of moderate-income housing. Staff will continue to explore options to consolidate moderate income housing obligations in exchange for very low-income units provided that the proposal represents an equal or greater amount of value in subsidy for the City and the proposal continues to help the City achieve its RHNA goals.

ENVIRONMENTAL REVIEW

The potential environmental impacts of the project were addressed in an Environmental Impact Report (EIR) prepared for the Tasman East Specific Plan and related approvals in accordance with the California Environmental Quality Act (CEQA).

COORDINATION

This report has been coordinated with the City Attorney's Office.

FISCAL IMPACT

If approved, the City will recognize \$6.0 million of developer contributions to fund the City's loan amount towards the project as reflected in the Budget Amendment below. Because the appropriation for the City's loan amount of \$6.0 million is included in the FY 2019/20 Year-End Report transactions to be heard separately on October 13, 2020, the developer contribution recognized in this memo will be allocated to ending fund balance.

**Budget Amendment
FY 2020/21**

	Current	Increase/ (Decrease)	Revised
Housing Successor Agency Fund			
<u>Revenues</u>			
Developer Contribution	\$0	\$6,000,000	\$6,000,000
<u>Reserves</u>			
Ending Fund Balance	\$3,918,181*	\$6,000,000	\$9,918,181
*Adopted FY 2020/21 EFB			

Under the terms of the Agreement, the City will still receive cash flow payments from the project, up to \$6 million, which will be paid upon the availability of residual receipts and prorated at 25%.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City's website and in the City Clerk's Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk's Office at (408) 615-2220, email clerk@santaclaraca.gov <<mailto:clerk@santaclaraca.gov>>.

ALTERNATIVES

1. Adopt a resolution approving and authorizing the City Manager to execute an Amended and Restated Affordable Housing Agreement with ZAEN Partners, LLC for construction of 150 affordable housing units located at 2302 Calle Del Mundo; to make modifications to the Loan Agreement and attachments as reviewed by the City Attorney for form and consistency; to execute all documents necessary (including Deeds of Trust, Promissory Notes, and Affordable Housing Agreements) to implement the Loan Agreement and close escrow; and,
2. Rescind Resolutions 19-8766 & 20-8811
3. Approve the FY 2020/21 Related Budget Amendment in the Housing Successor Agency Fund to recognize developer contributions in the amount of \$6,000,000 to fund the City's loan amount towards the project and increase the ending fund balance by \$6,000,000; and
4. Any other alternate action as directed by Council.

RECOMMENDATION

Alternative 1 and 2:

1. Adopt a resolution approving and authorizing the City Manager to execute an Amended and Restated Affordable Housing Agreement with ZAEN Partners, LLC for construction of 150 affordable housing units located at 2302 Calle Del Mundo; to make modifications to the Loan

- Agreement and attachments as reviewed by the City Attorney for form and consistency; to execute all documents necessary (including Deeds of Trust, Promissory Notes, and Affordable Housing Agreements) to implement the Loan Agreement and close escrow;
2. Rescind Resolutions 19-8766 & 20-8811; and
 3. Approve the related FY 2020/21 Budget Amendment in the Housing Successor Agency Fund to recognize developer contributions in the amount of \$6,000,000 to fund the City's loan amount towards the project and increase the ending fund balance by \$6,000,000.

Reviewed by: Andrew Crabtree, Director of Community Development

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Tasman East Ensemble Projects Map
2. Resolution to Amend and Restate the AHA
3. Form of Draft Loan Agreement
4. Form of Draft Promissory Note
5. Form of Draft Affordable Housing Agreement
6. Resolution 19-8766
7. Resolution 20-8811