



Agenda Report

19-1173

Agenda Date: 10/22/2019

REPORT TO COUNCIL

SUBJECT

Action on a Resolution Approving an Affordable Housing Agreement with ZAEN Partners, LLC for the Project Located at 2310 Calle Del Mundo

BACKGROUND

This item was initially scheduled for City Council action at the September 24, 2019 Council and Authorities Concurrent Meeting. The City Council continued the item and asked staff to provide additional information on how the proposal would align with the City's affordable housing goals and the Regional Housing Needs Allocation (RHNA) targets assigned to Santa Clara by the Association of Bay Area Governments (ABAG). The Council also requested more information on the proposal's economic benefit to the City.

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 include approximately 969 rental apartment units, associated parking garages, up to 30,000 square feet of retail space, approximately 4,500 square feet of leasing space, and approximately 55,000 square feet of amenity space (collectively, the "ZAEN Tasman East Projects"). Ensemble is a full-service real estate development and investments provider that creates real estate in the healthcare, hospitality, commercial and urban multifamily/mixed-use sectors. Ensemble is proposing to enter into a single Affordable Housing Agreement (AHA) with the City of Santa Clara to meet its inclusionary housing requirements for all three projects.

The Tasman East Specific Plan was approved by the City Council on November 13, 2018. The Specific Plan sets criteria on allowed uses, densities, height limits and design elements within the Tasman East area. Development projects within the Tasman East Specific Plan area may be entitled through an architectural review process and are typically not subject to further City Council review.

As per the Specific Plan, ten percent (10%) of all units that receive a discretionary approval before 2021 must be affordable by deed restriction to households making an average of 100% of area median income (AMI) with this number increasing to 15% thereafter. This affordable housing requirement is adjusted downward for high-density projects according to the following density incentive schedule:

Project Density	Phase I Through August 1, 2019	Phase II After August 1, 2021
Density < 120 DU/AC	10%	15%
120 DU/AC < Density < 140 DU/AC	8%	12%

Density > 140 DU/AC	5%	10%
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On July 17, 2019 the City approved the first ZAEN Tasman East project, known as the “Station Project,” which includes 503 residential rental units and approximately 23,870 square feet of retail space located at 5123 Calle Del Sol. The second project proposed by the Developer would include 150 residential rental units with approximately 5,000 square feet of retail located at 2310 Calle Del Mundo (the “Parcel 24 Project”); the Parcel 24 Project is currently pending review by City staff and anticipated to be brought forward for architectural approval in November of 2019. The third project proposed by the Developer would include 316 residential rental units located at 2263 Calle Del Mundo (the “Parcel 60/61 Project”) and is also currently under review by City staff but does not yet have an anticipated hearing date.

Ensemble Projects subject to the proposed AHA

Project Name	Address	Housing Units	Retail	Hearing Status
Parcel 19/29	5123 Calle Del Sol	503 DU	23,870 SF	Approved 7-17-19
Parcel 24	2310 Calle Del Mundo	150 DU	5,000 SF	Anticipated October
Parcel 60/61	2263 Calle Del Mundo	316 DU	No Retail	TBD

DISCUSSION

The three proposed developments (Parcels 19/29, Parcel 24, and Parcels 60/61) are anticipated to produce a total of 969 housing units, all of which would be subject to the Tasman East Specific Plan affordable housing requirements. Per the Tasman East Specific Plan requirements and accounting for the developer’s use of the Specific Plan’s density incentives described above, the Developer’s default obligation would be approximately 80 affordable units restricted to be affordable to households at an average of 100% AMI.

Consistency with Affordable Housing Ordinance

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. Consistent with this provision and the City’s interest in meeting its Regional Housing Need Allocation (“RHNA”) goals, City staff and the Developer have worked collaboratively to identify options to consolidate the cumulative affordable housing obligations of the Developer to deliver very low-income units at a single site in lieu of providing moderate affordable units within each individual project. Specifically, the Developer has agreed to deliver all of the affordable unit requirements for Parcels 19, 29, 24, 60 and 61 at once within the Parcel 24 Project, by providing thirty (30) very low income affordable housing units (defined as affordable to households earning an average of 50% of AMI), for a period of 55 years, in addition to paying a one-time Affordable Housing In-Lieu Fee equal to one half unit at the residential rental rate (estimated at \$77,000).

Value Analysis

The value to the City in terms of developer subsidy is estimated to be \$3.6 million greater for 30 units restricted at 50% AMI than it would be to provide 80 units restricted at 100% AMI per the following analysis:

1-bedroom Market Rate Assumptions		
\$ Rent PSF	\$4.35	
Proposed SF	690	
Estimated Rent	\$3,000	

Scenario 1 - Value of 80 units at 100% AMI		
Market Rent	\$3,000	\$2,627
100% AMI	\$2,627	\$2,627
Monthly Difference	\$373	\$0
Annual Difference	\$4,481	\$0
x 80 units	\$358,476	\$0
Estimated Value (55 Year)	\$6,679,653	\$0

Proposed Scenario 2 - Value of 30 Units at 50% AMI		
Market Rent	\$3,000	\$2,627
50% AMI	\$1,463	\$1,463
Monthly Difference	\$1,537	\$1,164
Annual Difference	\$18,449	\$13,968
x 30 units	\$553,469	\$419,040
Estimated Value (55 Year)	\$10,313,039	\$7,808,170

The Developer's proposal makes use of relatively small unit sizes (690 square feet per unit). Whereas affordable rent levels are fixed based on a formula established by the State using the AMI, the estimated monthly market rate rent (\$3,000) is a product of the assumed rent per square foot (\$4.35) and the square footage of the unit (690 sf). For the analysis, market rents were determined using the rent per square foot for a recent comparable project, Santa Clara Square. A higher estimated monthly market rate rent increases the economic benefit of the scenario with more affordable units (Scenario 1). Conversely a lower estimated monthly market rate rent would result in more economic benefit for the scenario with deeper affordability but less units (Scenario 2). Overall, the proposal for 30 units at 50% AMI provides an estimated \$3.6 million benefit to the City.

Affordability Levels and RHNA Requirements

In addition to the proposal's economic benefit to the City (\$3.6 million), the proposed delivery of units at deeper affordability levels is an opportunity to diversify the City's affordable housing pipeline. Affordable housing units are divided into four categories based on different levels of maximum income restriction: Extremely Low Income (ELI) up to 30% AMI, Very Low Income (VLI) up to 50% AMI, Low Income (LI) up to 80% AMI and Moderate Income (Mod) up to 120% AMI. The proposal would produce needed VLI units in place of Mod units that are being produced at a sufficient rate.

The following table outlines the City's current affordable housing pipeline, not including the current proposal or anticipated new residential development in Specific Plan areas under development, such as El Camino Real and Patrick Henry Drive:

Affordable Housing Development Pipeline (2019)					
Projects	ELI	VLI	LI	Mod	Totals
90 N Winchester	59	72	32	18	181
2330 Monroe Street	16	10	29	10	65
3575 De La Cruz			6	7	13
2094 Corvin	80	64		1	145
500 Benton - SC Station (VTA)			70		70
Kifer Road - Lawrence Station			10	88	98
St. Anton / Santa Clara Square		37	158	1	196
Gateway Crossings			80	80	160
Tasman East (Estimated)				400	400
Other Inclusionary (Estimated)				500	500
Totals	155	183	385	1105	1828

As the table illustrates, the City will have a steady pipeline of moderate-income units (at an average of 100% AMI) created through its Affordable Housing Ordinance as developers are required to provide these units through an inclusionary housing requirement for all new construction projects.

Similarly, the City also has a greater need for low and very low-income units to meet its Regional Housing Needs Allocation (RHNA) targets for affordable units at various income levels. The following table outlines the city's current RHNA cycle targets:

Affordability Level	RHNA Allocation 2015-2022	Actual Product 2015-2018	Target Pipeline 2019-2022	Remaining Product 2019-2022
Very Low (0% - 50% AMI)	1050	0	338	712
Low (51% - 80% AMI)	695	1	385	309
Moderate (81% - 120% AMI)	755	36	1105	N/A
Market Rate (>120% AMI)	1,593	3382	5500	N/A
Totals	4093	3419	7328	1021

The RHNA Allocation methodology combines what the City considers ELI and VLI units into a single "Very Low" income category. Based on the City's current projected pipeline, there is likely to be an excess of moderate-income unit production relative to the RHNA requirement and a potential deficit in the City's low and very-low income unit production. **The current proposal to consolidate the project's affordable housing obligation to deliver very low-income units at a single site in lieu of providing moderate affordable units within each individual project would help to address the potential deficit of Very Low units relative to the RHNA requirement.**

Affordable units at deeper levels of affordability are not required under the Affordable Housing Ordinance and normally need public subsidies, which typically include State, County, and City capital contributions (or land). Based on the City's projected pipeline and the difficulty creating lower income units, staff will in some instances, where there is clear economic benefit to the City and it will help to meet the City's overall housing goals, recommend that a developer be allowed to fulfill the City's Affordable Housing Ordinance by exchanging moderate income units with fewer units restricted to deeper levels of affordability.

Affordable Housing in Tasman East

Buildout of the 4,500 units supported by the Tasman East Specific Plan will conservatively produce 400 units of moderate-income housing in addition to those already in the pipeline. To address the need for more Very Low and Low income units to meet the RHNA targets, staff will continue to explore options to consolidate moderate income housing obligations in exchange for very low-income or 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. Staff does not expect a concern that we would “run out” of a need for deeper affordability levels. Ultimately, any proposal to consolidate an affordable housing obligation must come before City Council and is subject to discretionary approval.

If approved, the proposed thirty (30) very low income units on the Site will satisfy the Affordable Housing Requirements for the project on Parcel 19 and 29, the Affordable Housing Requirements with respect to Parcel 24, and may also be used to satisfy the Affordable Housing Requirements in regard to the future development in Parcel 60 and 61, which shall be formalized if that future project is approved. The distribution of the units in the Parcel 24 Project shall be thirty (30) units for very low-income residents, one hundred nineteen (119) market rate units and one (1) unrestricted managers unit. In order to ensure that the affordable units are provided prior to or concurrently with the market rate units, the City will not issue a building permit for the Station Project or the Parcel 60/61 Project until such time as a building permit is issued for the Parcel 24 Project.

Affordable Housing Agreement Terms

The key terms of the proposed Affordable Housing Agreement include the following:

Project:

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.

The proposed project will set aside 20% (30 units) of the 150 units for “Very Low Income” residents, with rents restricted at 50% of the Area’s Median Income (AMI), while 80% (120 units) will be market rate units. One onsite manager’s unit will also be provided. There is a mix of studios, 1-bedroom, 2-bedroom, and 3-bedroom units ranging in size from 420 square feet to 1,220 square feet targeted towards mid-level professional singles and couples working in the surrounding area. The site is conveniently located two blocks north of the Tasman VTA light rail stop, and within close proximity to other public transit options.

Term:

The Project that will be designated for very low- and low-income residents and shall meet affordability requirements for very low- and low-income residents for a period of 55 years.

Lease-Up and Marketing:

No later than ninety (90) days prior to the start of accepting applicants, Developer or an Affiliate approved by City of Santa Clara shall prepare and submit to the City for reasonable approval a marketing and outreach program for the Affordable Housing Units which shall contain, among other things: (i) how a potential Income-Qualified Household would apply to rent an Affordable Housing Unit in the Project, including where to apply, applicable income limits and rent levels; (ii) a description of procedures and media Developer will use to publicize vacancies in Project, including

notice in newspapers of general circulation, at least one of which shall be a foreign language newspaper; (iii) provide monthly leasing reports until all thirty (30) Affordable Housing Units have been leased up and occupied, and (iv) mailing notices of vacancies to or contacting by telephone potential tenants on the Waiting List maintained by Developer. Marketing of the Affordable Housing Units shall be done through outreach that affirmatively furthers fair housing in accordance with all federal and State fair housing laws.

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

There is no additional cost to the City to process this request beyond staff time and expenses currently addressed within the City's budget.

A one-time Affordable Housing In-Lieu Fee equal to one half unit at the residential rental rate will be deposited into the City Housing Fund at the time it is received from the Developer.

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>> or at the public information desk at any City of Santa Clara public library.

RECOMMENDATION

1. Adopt a Resolution approving and authorizing the City Manager to execute the Affordable Housing Agreement with ZAEN Partners, LLC, and authorizing the City Manager to negotiate, execute, and record any documents necessary to implement the terms of the Affordable Housing Agreement consistent with this Report including amendments to the Affordable Housing Agreement, to implement the terms, covenants, and restrictions associated with the provision of thirty (30) very low-income units at 2310 Calle Del Mundo (APN# 097-05-059); and,
2. Authorize the recordation thereof.

Reviewed by: Andrew Crabtree, Director of Community Development

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Tasman East Ensemble Projects Map
2. Affordable Housing Agreement with ZAEN Partners, LLC
3. Covenant Restrictions with ZAEN Partners, LLC
4. Resolution