



**COMMUNITY DEVELOPMENT DEPARTMENT
HOUSING DIVISION**

DATE: April 20, 2012
TO: Housing and Human Services Commission
FROM: Suzanne Isé, Housing Officer
RE: Proposed Housing Mitigation Fund Affordable Housing Project Awards

In February 2012, the City released a Request for Proposals (RFP) for affordable housing project proposals to be funded with Housing Mitigation funds in FY 2012-13. Applicants were invited to present their proposals at the March 28th and April 25th HHSC meetings. The proposals were evaluated on several goals and housing priorities listed in the RFP, and goals and objectives described in the City's Housing Element. All proposals were reviewed for consistency with these goals and priorities. The RFP and scoring (scoring sheet attached) was conducted by a panel of four housing staff members with input from Planning staff regarding permitting issues related to the new construction proposal. These scores will be considered by the Commission for funding recommendation and will be forwarded to the Council, which will hold a public hearing and make the final decision regarding funding awards in June.

The City received two proposals in response to the RFP:

Housing Developer: MidPen Housing Corporation
Funding Request: \$5,000,000 (\$55,555/unit)
Project Name: Homestead Park Rehabilitation Project
Project Description:

Rehabilitation of the 211-unit Homestead Park Apartments, located at 1601 Tenaka Place, to improve and preserve affordable rental housing for very low-income households. The proposed project would completely rehabilitate the exteriors of 10 buildings (approximately 90 units) with an urgent need for rehabilitation, and completely renovate the interiors of all 211 units.

Housing Developer: St. Anton Partners, LLC
Funding Request: \$3,750,000 (\$150,000/unit)
Project Name: Pastoria Central New Construction Project
Project Description:

Construction of 124 new rental apartments on a site currently occupied by an office building in one of the City's "Industrial to Residential" General Plan areas along Fair Oaks Avenue. The proposed project would include 25 very low-income rental apartments and 99 market-rate apartments in a three-story structure, with the housing units "wrapped" around a central, multi-level parking structure.

Staff Review and Recommendations:

A. Homestead Park Proposal from MidPen Housing

MidPen Housing has over forty years of experience in the development, management, and rehabilitation of affordable housing throughout the Bay Area, and a long history of successful development and management of quality affordable housing in Sunnyvale. The proposed project would address the goal in the City's Housing Element to improve and preserve affordable rental housing for lower-income households. However, the proposed matching ratio of approximately 11% of the project cost is well below the City's standard matching requirement of at least 25%. MidPen has informed staff that it is pursuing two additional sources of matching funds for the project which would meet or exceed the 25% ratio, however as those funds have not yet been committed, they were not included in the application. The staff panel gave this proposal an average score of 83 out of 100, due in part to its relatively low matching ratio compared to similar past projects, and the level of existing debt on the property, which limits its ability to obtain additional financing from most sources. MidPen has also indicated that the most pressing rehabilitation needed is the exterior work, while the interior renovations are not an immediate need in terms of health and safety conditions. However, the interior renovations are highly desirable in order to greatly improve energy and water efficiency, comfort, and interior appearance for the residents, and to reduce the utility costs incurred by the property owner.

Alternatives:

1. Award a conditional loan commitment of up to 75% of the estimated total cost of the rehabilitation project as proposed, not to exceed \$5 million, conditioned upon the applicant securing adequate matching funds to pay for at least 25% of the project cost, and securing formal approval of the requested City loan by all senior lienholders on the property.
2. Divide the project into two phases, the first phase consisting of the exterior rehabilitation work only at an estimated cost of \$2.4 million, and the second phase consisting of the interior renovations at an estimated cost of \$2.6 million. Award a conditional loan commitment to fund 75% of Phase 1, and upon completion of Phase 1, award a conditional loan commitment to fund 75% of Phase 2. Both awards would be conditioned upon the applicant providing a match of at least 25% for each phase of the project and senior lienholder approval, prior to final loan commitment. This would allow the City to potentially fund other projects in the interim and use future HMF revenues to fund the interior work when MidPen is ready to undertake the work.

Staff Recommendation:

Staff recommends Alternative 1. Award a conditional loan commitment of up to 75% of the estimated total cost of the rehabilitation project as proposed, not to exceed \$5 million, conditioned upon the applicant securing adequate matching funds to pay for at least 25% of the project cost, and securing formal approval of the requested City loan by all senior lienholders on the property. The two major draw backs to a phased approach are increased cost and resident inconvenience.

B. Pastoria Central Proposal from St. Anton LLC

St. Anton Partners has over sixteen years of experience in mixed income and affordable housing projects, creating over 5,000 affordable housing units, and has been ranked 8th nationwide by Affordable Housing Magazine in 2008 and 9th in 2009. Staff felt that the proposed Pastoria Central project has a lot of merit in concept, but the proposal was not as strong as it could be in several of the scoring categories set forth in the RFP, such as capacity and relevant experience; project design and readiness; budget and financial management; and proposed affordability levels. A number of project details should be more fully explained and documented in the application in order to earn a conditional funding award. In addition, the applicant does not meet one of the eligibility criteria in the RFP, as they have not developed at least three affordable housing projects in this county or the surrounding counties. Furthermore, the site will require a rezoning to higher density. Nonetheless, the project as proposed would meet a serious need for more rental housing affordable to very low income families and individuals, as described in the City's Housing Element, as well as for rental housing affordable to households of any income level, given the current high level of demand for rental housing in the local area.

The staff panel gave this proposal an average score of 58.75 out of 100, due to the reasons stated above. Staff will invite the applicant to attend a debriefing session to review the areas in which their application could be improved.

Staff Recommendation:

Staff recommends not awarding a funding commitment to St. Anton LLC for the Pastoria Central proposal at this time, but encourages the applicant to continue working with staff to refine their project proposal, and reapply for Housing Mitigation Funds when they can provide more detail and certainty regarding project design, density, project costs and funding sources, and/or proposed affordability levels. Additional detail and/or certainty regarding these issues will help applicant more clearly identify the amount of funding needed to fill any gap incurred by provision of more affordable units than otherwise feasible or otherwise required in order to obtain applicant's desired density bonus. The proposed project still needs initial review by Planning staff and Planning Commission of the proposed rezoning, density, site plan and architecture as well as initial community outreach meetings.