

Revised Alternative Mitigation Narrative
675-685 Middlefield Road
Submittal Date: October 11, 2024

We are pleased to submit this further revised Alternative Mitigation Narrative for our proposed mixed-use project (the “Project”) located at 675-685 Middlefield Road (the “Site”). This revised Narrative memorializes the proposed changes to the Project’s affordable housing strategy which were discussed with City staff during the call held on October 2, 2024. As we discussed on the call and as is permitted by the City’s Below Market Rate (“BMR”) Administrative Guidelines, the Project proposes alternative mitigation composed of two strategies: off-site development of affordable units and provision of fees in lieu of units.¹

We remain deeply committed to this Project and we look forward to continued cooperation with the City in delivering new affordable units to the community.

I. SUMMARY OF ALTERNATIVE MITIGATION PROPOSAL

The Site is located at the intersection of E. Middlefield Road and Logue Avenue, and falls within the City’s East Whisman Precise Plan (“EWPP”). The Project proposes to replace the existing office buildings and surface parking lot with a new mix of uses that incorporates market rate and affordable housing, office, retail and a new POPA park across from the existing Middlefield VTA light rail station and Google’s planned Middlefield Park development. The Project will include a total of 836 residential units, including 150 BMR rental units.

The Project’s affordable units will be constructed on a parcel on the Site in a stand-alone structure. Under the BMR Administrative Guidelines, this constitutes development “off-site.”² Please see the attached **Exhibit A** for a chart summarizing the Project’s affordable housing program.

In this case, the Project’s affordable units will be located in a stand-alone structure rather than mixed with the Project’s market-rate units. The Project seeks alternative mitigation for two overarching reasons: (i) it is necessary for the Project to achieve financial feasibility; and (ii) it is necessary for the Project to provide more affordable units at deeper affordability levels than would be required under the City’s baseline requirements. The alternative mitigation proposal is good for the City because it will deliver a greater number of sorely-needed affordable units at deeper affordability levels than are contemplated by the City’s baseline requirements.

Pursuant to discussions with City staff and in a further effort to preserve the Project’s feasibility, applicant remains committed to covering a funding shortfall in an amount of \$12 million, which would be offered in lieu of providing the remaining 18 affordable units from our initial proposal. We note, however, that the City Council could choose to accept this \$12 million funding or may elect to forgo such payment and request that these units be provided as inclusionary within the Project.

¹ Administrative Guidelines p. 15.

² Administrative Guidelines p. 14.

II. REQUIRED FINDINGS FOR DEVELOPMENT OF AFFORDABLE HOUSING UNITS OFF-SITE

We propose providing an off-site standalone structure containing 150 BMR units. In order to ensure the viability and suitability of these units, we plan to partner with a local affordable housing developer to assist with financing and managing these units.

a. The alternative mitigation exceeds the City’s standard BMR requirements and advances the City’s goals for housing memorialized in the EWPP.

The EWPP sets forth two broad plan strategies directly relating to housing. The Project’s proposed alternative mitigation is consistent with each of these plan strategies. First, the EWPP includes a “jobs-housing linkage” program to ensure that residential development is balanced with office and R&D growth.³ The Project’s alternative mitigation plan is consistent with this strategy. As is detailed in the concurrently-submitted Community Benefits & Jobs-Housing Linkage Letter, the overall Project—including the affordable component—provides a total of 836 new residential units. This significantly exceeds the amount—114 new units—required by the EWPP’s jobs-housing linkage policy.

Second, the EWPP includes a goal that 20% of new housing units are affordable and a goal for a range of units sizes, with incentives and requirements to meet them. Individual developments may not be required to comply with the unit mix goal, but the City will monitor growth against these goals, and may adjust policy to help achieve them.⁴ The Project’s alternative mitigation plan is consistent with this strategy. As was discussed at a June 5, 2024 meeting between Planning personnel and the applicant, the Project’s affordable unit mix has been voluntarily adjusted to better align with the City’s unit mix goals.

The City’s Alternative Mitigation Guidance asks applicants to complete the following chart to illustrate which standard BMR requirements the project seeks to deviate from. Because the Project meets each of the listed standard BMR requirements, we have adjusted the chart to explain why it meets the requirements.

Standard BMR Requirement	Alternative Mitigation Proposal Consistency
15% unit set-aside	The Project includes an ~18% affordable set-aside, which exceeds the baseline requirement by 3%. In addition, as stated above, the applicant will provide an additional shortfall payment of \$12 million, which would be earmarked by the City for use on the Project’s affordable units and would effectively raise the affordable set aside to 20%.
Weighted average of 65% AMI or less (rental projects)	The Project includes a cumulative weighted average of 50% AMI, which is more affordable than the baseline requirement.

³ EWPP p. 34.

⁴ EWPP p. 35.

Proposing a minimum of two income levels	The Project provides four income levels (30% AMI; 50% AMI; 60% AMI; 70% AMI), which exceeds the baseline requirement.
HOA reserve requirement (ownership projects only)	<i>Not applicable.</i>

- b. The off-site units will be 18% of the total number of residential units for the residential development and applicant will pay fees totally \$12 million in lieu of providing an additional 2% of units, bringing the Project's effective overall affordable component to 20% of the total number of residential units.**

The Project will provide the off-site affordable units in a standalone structure that is designed to be integrated within the overall development. This will enable the Project to provide 150 affordable units at a 50% AMI weighted average. This, together with the offering \$12 million in shortfall funding to be earmarked by the City for use on the Project's affordable units, will bring the Project's overall effective affordable component to 20%, which exceeds the 15% required by the City's inclusionary ordinance and meets the 20% requirement specific to developing off-site BMR units.⁵

We note that, consistent with the BMR Administrative Guidelines, the Project's proposed BMR affordability level is below the City's 65% limit.

- c. Location: the off-site location of the proposed BMR units are in a location consistent with the City's goals for housing as expressed in the EWPP.**

The residential portion of the Project seeks to provide a variety of housing types, including off-site standalone affordable housing, at a location that is consistent with the City's goals for housing as expressed in the EWPP. Ground floors will include building and individual unit entries, stoops and private gardens, enlivening adjacent streets and encouraging interaction between residents. At 85 feet in height, the buildings incorporate upper floor step backs, and massing breaks at regular intervals to reduce the appearance of mass, height and bulk. At the courtyard level and above, significant amounts of communal open space provide opportunities for socializing, exercise and community events.

Each of these design choices serves a number of the City's goals and policies for the EWPP. Specifically, the Project's off-site unit strategy is consistent with the following guiding principles and plan strategies for the EWPP:

EWPP Goal	Project Feature
Transforming East Whisman into a Mixed-Income Community with a Balance of Renters and Owners. (EWPP p. 17.)	Consistent with the EWPP's goal of creating a mixed-income community, 18% of the Project's housing units will be affordable units. In addition, as stated above, the applicant will provide an additional shortfall payment of \$12 million, which

⁵ BMR Administrative Guidelines p. 14.

	would effectively raise the affordable set aside to 20%. Additionally, as illustrated in Exhibit A , the affordable units will be of mixed unit sizes and will accommodate both small and large households.
Create a Complete Neighborhood. (EWPP p. 18.)	The standalone affordable units will positively contribute to the Project's blend of office, retail, and residential uses together to create a complete community.
Focus Activity and Development around Middlefield Light Rail Station (EWPP p. 19.)	The standalone affordable units will be conveniently served by the Middlefield Station and will contribute to the Project's consistent pedestrian-friendly frontages.
Integrate New Housing Harmoniously with Office Uses (EWPP p. 22.)	The standalone affordable units will support the Plan's goal of cultivating a pedestrian-friendly environment and will support the Plan area's residential character and quality of life.
Maximize Land Use Flexibility While Balancing Jobs and Housing (EWPP p. 23.)	The standalone affordable units will comply with the EWPP's Jobs/Housing Linkage Program and will accompany the Project's new office and retail uses.
Minimize Vehicle Trips (EWPP p. 24.)	The standalone affordable units will assist the overall Project in minimizing vehicle trips due to its proximity to the Middlefield Station.

d. Suitability: the proposed BMR units are suitable based on location, type of project, number of units/bedrooms, compliance with BMR requirements, adjacent uses, comparability to market-rate units, and other planning criteria.

Since the Project's initial submittal and in collaboration with the City following Development Committee Review hearings on March 1, 2023 and January 17, 2024, the Project's BMR unit sizes have been adjusted to bring them closer to the sizes provided for the Project's market rate units. Additionally, in order to further ensure the suitability of the proposed BMR units, the Project sponsor retained an affordable housing development consultant to prepare a detailed pro forma and scoring for the Project. The consultant's analysis confirms that the proposed BMR strategy has a high potential for funding competitiveness.

The fixtures and amenities in the Project's BMR units will be consistent with the City's BMR administrative guidelines, and generally comparable to those in the market-rate units. In particular, many affordable units—18 percent—will include decks or patios. Each unit will include private storage space and one bike storage space. The project will also include the following general amenities:

- Roof terrace providing view of courtyard and Linear Park (2,140 sf)

- Courtyard with a play structure, seating areas, barbecues (2,600 sf)
- Mail package room
- Community spaces for gatherings and events, one of which would include a small pantry and kitchen
- Amenity (1,652 sf)
- Amenity (601 sf)
- Lobby (853 sf)
- Common laundry space overlooking a children's play area/courtyard

The "amenity" spaces referenced above will be programmed by the affordable housing developer that ultimately develops the project. Consistent with the Administrative Guidelines, certain luxury items provided in the market-rate units may not be provided in the affordable units. However, the units will be broadly comparable in compliance with the Guidelines.

Additional BMR unit amenities and features include a meandering walkway connecting the BMR residents to the Linear Park with garden plantings and places to sit or gather. Ground-level patios at the west will also be provided, providing views and outdoor space with plantings to buffer residents from the sidewalk and street. Residents with children will enjoy podium-level play areas which accommodate multiple-age play.

Finally, we note that supportive services are essential in enhancing the stability and quality of life for families occupying BMR units. These services often include tailored case management, which assists families in accessing crucial resources such as healthcare, childcare, and educational support. Programs may provide parenting workshops, after-school activities, and tutoring services to support children's academic success and overall development. Additionally, financial literacy classes and job training help parents improve their economic prospects and self-sufficiency. Family counseling and mental health services are also available to address any emotional or psychological challenges, ensuring a balanced and supportive home environment. By integrating these services, affordable housing projects help families build a stronger foundation, fostering both individual growth and collective community well-being.

e. Timing of delivery: the off-site BMR units will be financed and construction commenced prior to City issuance of a certificate of occupancy for the first market-rate building.

Consistent with the BMR Administrative Guidelines' authorization to request alternative mitigation made up of more than one strategy, applicant proposes that the Project's off-site BMR units will be fully financed and construction commenced on the standalone BMR unit structure prior to issuance of the certificate of occupancy for the first market-rate building.

As we have indicated, at this early stage, the Project's funding sources are not final and cannot be detailed with certainty. However, the City should be aware that the Project will be funded using industry-standard financing, including but not limited to a tax equity-backed construction loan, a taxable construction loan, tax credit equity, various levels of municipal (State, County, City) funding and/or other private funding mechanisms. As we note above, in order to further ensure the suitability of the proposed BMR units, the Project sponsor retained an

affordable housing development consultant to prepare a detailed pro forma and scoring for the Project. The consultant's analysis confirms that the proposed BMR strategy is has a high potential for funding competitiveness.

III. REQUIRED FINDINGS FOR PROVISION OF FEES IN LIEU OF UNITS

Pursuant to the BMR Administrative Guidelines' authorization to request an alternative mitigation "composed of more than one strategy," we propose providing fees in lieu of the extra 2% of affordable units which would be required to bring the Project's overall effective affordable component to 20%.⁶

The in lieu fee amount will be greater than the value of developing the BMR units on-site. Specifically, assuming a per square-foot cost of \$657 to construct affordable units at the Project, the cost of constructing the extra 2% (18 units) on site would be approximately \$9,732,150, which is substantially less than the \$12 million fee we propose.⁷ Additionally, pursuant to the BMR Administrative Guidelines, the fee amount will be paid prior to issuance of the first building permit for the Project. Again, the Project sponsor would be providing the substantial in-lieu fee with the expectation that the funds would be earmarked by the City for contribution, if necessary, to the Project's proposed BMR structure.

Thank you for your time and attention to this important project. We look forward to continued cooperation with the City in delivering new affordable units to the community.

⁶ BMR Administrative Guidelines p. 15.

⁷ This calculation assumes an average per-unit square footage of 801 for the affordable units, which is in turn based on the 150-unit structure containing 120,186 net rentable square feet. The estimated construction cost per square foot is obtained by dividing the City's in-lieu fee figure for the 150-unit structure (\$79M) by 120,186 net rentable square feet.

EXHIBIT A

Unit Type	Unit Count	Income Level(s)
3 BR	38	30-70% AMI
1 BR	75	30-70% AMI
2 BR	37	30-70% AMI
TOTAL	150	50% AMI weighted avg.