COUNCIL REPORT

CITY OF MOUNTAIN VIEW

DATE: December 3, 2019

CATEGORY: Public Hearing

DEPT.: Community Development

TITLE: **1720 Villa Street Residential Project and 660 Mariposa Avenue**

RECOMMENDATION

1. Adopt a Resolution Approving a Modification to the BMR Requirement for the Previously Approved Planned Community Permit at 1696-1758 Villa Street to Require 17 On-Site Units and an Initial Payment for the Acquisition and Rehabilitation of 48 Off-Site Units at 660 Mariposa Avenue, to be read in title only, further reading waived (Attachment 1 to the Council report).

2. Direct staff to work with the Applicant and Bridge Housing for the acquisition and rehabilitation of 660 Mariposa Avenue.

BACKGROUND

On June 4, 2019, the City Council approved permits for a Gatekeeper project by Prometheus Real Estate Group ("Applicant") to develop a 226-unit apartment complex at 1720 Villa Street (the "Villa Street project"). The Villa Street project has a 15 percent affordable housing requirement per the Below-Market-Rate Housing Program, for a total of 34 BMR on-site units.

At the June meeting, Council reviewed two alternatives for meeting the Villa Street project's BMR requirement instead of providing the units on-site. The first alternative mitigation proposal was an in-lieu fee payment of $10.88 million, which was described in the Council report (Attachment 2).

At the meeting, the Applicant presented a second alternative mitigation for the BMR requirement, which included the following:

- Convert all 48 rent-stabilized units at Mariposa Club Apartments ("Mariposa"), located several blocks south of the Villa Street project at 660 Mariposa Avenue and owned by the Applicant, into affordable housing deed-restricted for 55 years to meet the Villa Street project's affordable housing requirement instead of providing 34 BMR on-site units.

- Applicant would work with Bridge Housing ("Bridge"), a nonprofit developer, to rehabilitate and deed-restrict the 48 units at Mariposa through a regulatory agreement with the City. Bridge would own and operate the property.

- Initial rents at Mariposa would be set at levels affordable to the existing households at various income levels, with rents increasing 4 percent annually until it reached the 80 percent AMI rent level.

  - Households at less than 80 percent AMI would have lower initial rents.

  - Households above 80 percent AMI would continue to pay their existing rents. Upon vacancy, the unit would be set to 80 percent AMI rents.

- Applicant would contribute $10,880,000 toward the Mariposa alternative mitigation and Bridge would raise the additional funds to acquire and rehabilitate the property. There would be no City funding for Mariposa.

This second alternative mitigation was not shared in detail nor in sufficient time with the City for staff to appropriately evaluate prior to the Council meeting and was, therefore, not included in that Council report.

At the meeting, the Council provided initial input on the Mariposa alternative, including the following:

- Council was clear that there was not sufficient information or analysis provided for the second alternative mitigation, the Mariposa concept, at that point for Council to make a determination.

- Council was supportive of exploring the alternative mitigation proposal.

- Council was concerned about tenant displacement, but that concern was not expressed as support for the specific Mariposa concept as brought forth by the Applicant.

- There is no guarantee that there would be no displacement even with the rehabilitation and deed restrictions in place.

- There is no guarantee that displacement would occur if Mariposa were left to the market.

- Mariposa would not be adding any affordable units to the City, only converting naturally affordable units that already exist.

- Several Councilmembers talked about looking for opportunities to do something different to solve this issue and find a win-win, which could include the 34 BMR on-site units at the Villa Street project and working to acquire Mariposa.

At the end of the meeting, the Council unanimously approved 1720 Villa Street with the 34 BMR on-site units in perpetuity, and this requirement is in the project's Conditions of Approval. The Council also asked staff to work with Prometheus to evaluate the Mariposa concept and return to Council in fall 2019.

For reference, below is a map showing the locations and relationship between the two properties.

Map of Project Sites

ANALYSIS

Evaluation of Mariposa Alternative Mitigation

Since the June 2019 entitlement hearing, staff has actively worked with the Applicant and Bridge to evaluate the Mariposa alternative mitigation. The evaluation was based on the Prometheus proposal submitted on September 5, 2019 (Attachment 3) and Bridge Housing submitted Mariposa Preservation Summary (Attachment 4) and associated pro forma that established acquisition and rehabilitation costs to be approximately $32,100,000. Staff's evaluation is included as Attachment 5 and summarized in this subsection.

Evaluation Framework

The BMR program guidelines (both Phases 1 and 2) state that a request for an alternative mitigation may be granted at the sole discretion of Council, if the Council determines that such alternative will further affordable housing opportunities in the City to a greater extent than the affordable housing obligation. Therefore, a fundamental component of evaluating the Mariposa alternative is whether it provides a greater benefit to the City than the BMR on-site units at the Villa Street project. Submittals for alternative mitigations are relatively new, and there is not a clear precedent for how to evaluate the Mariposa concept specifically.

However, the following are the evaluation criteria that staff used to assess the BMR on-site requirement versus the Mariposa alternative mitigation:

- Project-level comparison, including on-site features/amenities.

- Unit-level comparison, including in-unit features/amenities.

- Economic value and financing structure.

- Qualitative factors, including probability/efficacy of preventing displacement and the value of affordable housing integrated with market-rate housing.

Staff incorporated Council's input into the evaluation framework that there should be no additional City funding for Mariposa and that addressing tenant displacement was a priority.

Summary of the Mariposa Alternative Mitigation

Based on a detailed evaluation (see Attachment 5), staff concludes that the Mariposa alternative mitigation does <u>not</u> provide a greater benefit to the City, on balance, than the 34 BMR on-site units when accounting for the overall project, quality and affordability of the units, economic factors, and qualitative factors. The key conclusions include:

- <u>Comparison of the affordable units—Villa Street Project BMR units are superior</u>

  The 34 BMR on-site units would be net new affordable units built to modern standards in a highly amenitized building, provide lower affordability levels, are integrated with market rate units, and would be in perpetuity. The Mariposa units would be converting naturally affordable housing into deed restricted units, but only for 55 years and would not be built to the same quality or standards as the Villa Street project units. While Mariposa would have more units, the units are, on average, 20 percent smaller than the Villa Street project BMR units and would have less amenities/be lower quality. Additionally, converting existing, naturally affordable units would not add to the City's overall affordable housing supply, but adding 34 BMR on-site units would increase the supply, especially when considering impending replacement requirements for demolished rent-stabilized units as discussed below. Finally, it has been articulated that there is value in integrating BMR housing with market-rate housing, which would be accomplished by the 34 BMR on-site units at the Villa Street project. In the past, both the EPC and Council have indicated they felt that incorporating affordable housing with market-rate units is an important public policy objective. In June 2019, based on Council priorities, the BMR program was modified to prioritize the development of BMR units on-site, with in-lieu fees clearly being an alternative mitigation and the fee level set at the economic equivalency of providing BMR units on-site.

- Economic value—Villa Street Project BMR units are superior

  It is estimated that economic value of the 34 BMR on-site units is $20.1 million. This is based on the analysis that $96 per net livable square foot of a project is the economic equivalent of a 15 percent BMR on-site requirement in perpetuity from the perspective of a developer for projects similar to Villa (i.e., four- to five-story multi-family rental housing development with podium parking). The Applicant stated that it would work with Bridge to deliver Mariposa to meet its BMR obligation at no cost to the City and that it would directly contribute $12.4 million (this would not be considered an in-lieu fee payment) to facilitate Mariposa, with Bridge financing the rest of the Mariposa acquisition and rehabilitation. Note that the $12.4 million is higher than the $10.88 million as originally proposed due to increased construction costs. At the June 2019 entitlement hearing, the Applicant stated that there would be no City funding for the Mariposa alternative; therefore, the Applicant would bear the increase in costs associated with Mariposa. Nevertheless, the Applicant's financial contribution of $12.4 million to Mariposa would still be substantially less than the value of the BMR on-site units at the Villa Street project.

- Preventing tenant displacement—Unclear which is superior

  The Applicant has stated that the Mariposa alternative mitigation would be a way to prevent the displacement of existing tenants. The Applicant has also stated that if the Villa Street project is required to include the BMR units, they would not work with the City on Mariposa and would instead seek to sell that property to market-rate developers. Staff's evaluation on this issue includes the following:

  — The Applicant has the choice to work with the City to preserve Mariposa even if required to provide the 34 BMR on-site units, but the Applicant is choosing not to.

— Although the Applicant/Bridge state that there would be no displacement of existing tenants, their intended financing structure, rent increase plan, and the potential for future redevelopment could still lead to tenant displacement. Whereas the AMI levels of BMR units would be maintained at the same AMI levels, Bridge has stated that the rents of the Mariposa units would be escalated up to 4 percent annually until all units are set to the 80 percent AMI level. Under the current CSFRA, landlords are allowed to increase rents annually by CPI (the City-led ballot initiative has modified this to a 4 percent flat rate), but they do not necessarily increase rents every year the way Bridge intends to do. Over five years, 4 percent compounded annually is approximately 22 percent increase in rents. Most of the Mariposa tenants are very-low-income households earning 50 percent AMI or less, which is substantially less than the 80 percent AMI levels that the units will escalate to under the Applicant/Bridge submittal. There is no guarantee that their incomes would increase during this time, but the rents are guaranteed to increase each year per the plan submitted in Attachment 4. Therefore, while it is likely that tenants are not immediately displaced, rent escalation could result in displacement.

— On October 29, 2019, Council unanimously supported staff's recommendations for further evaluation of an integrated and comprehensive displacement response strategy. Staff is targeting Q2 2020 for Council consideration of the strategy, which is likely to include replacement requirements for demolished rent-stabilized units and other requirements. Additionally, the recently passed SB 330 goes into effect January 1, 2020 and also includes requirements for replacing demolished rent-stabilized units. Should Council keep the 34 BMR on-site units at the Villa Street project and the Applicant chooses to sell to, and successfully finds, a market-rate developer, a redevelopment project at Mariposa would need to go through the entitlement process. The requirements of SB 330 would already be in effect and the City's displacement response strategies, which are currently being developed and are anticipated to be considered by Council in 2020, would offer greater protections to tenants before any project entitlement hearing for a Mariposa redevelopment.

— Staff recommends that, if Council keeps the 34 BMR on-site units, the existing Condition of Approval 57 be modified to require that any tenants displaced from Mariposa have preference for the new Villa Street project BMR units. There is a strong public policy rationale for this project to have a preference for the displaced tenants, and that such a preference would comply with fair housing regulations.

Recommendation

Staff recommends that Council not support the Mariposa alternative mitigation as requested by the Applicant, and consider the hybrid option instead as presented below.

Hybrid Option—Require 17 BMR on-site units at the Villa Street project and direct Applicant to work with City on the acquisition of Mariposa.

Staff discussed a hybrid option with the Applicant/Bridge, but the Applicant was not supportive of continued discussion. Instead of the Mariposa alternative and no BMR units, the hybrid option would include 17 BMR on-site units at the Villa Street project (instead of the 34 BMR units currently in the COA) and require that the Applicant work with the City for Bridge or another qualified affordable housing developer to acquire the Mariposa property. The expected financial contribution by the Applicant towards Mariposa would be an initial fee of $6.2 million (i.e., half of the $12.4 million as noted above), and the City would contribute the other $6.2 million. Because City funds would be part of the Mariposa acquisition under this hybrid option, prevailing wages would be required. Bridge estimates that prevailing wage would increase project costs by approximately $2 million. Therefore, the total City contribution could be $8.2 million. The Applicant will provide an initial contribution of $6.2 million. The final amount is dependent on a life, health, and safety analysis of the building by the Chief Building Official. In addition, staff is recommending the rehabilitation of Mariposa be equal to the level of the Applicant's rehab of the Madrone apartments located at 111 North Rengstorff Avenue (another property owned and rehabilitated by the Applicant), which includes items like replacement of windows and improved finishes. This analysis of Mariposa by the Chief Building Official and/or the higher level of rehabilitation work than proposed may lead to additional costs.

If additional costs are required, a new pro forma will be provided by Bridge Housing, and the additional costs will be paid for by Applicant. The Applicant would be conditioned to transfer the 660 Mariposa property to Bridge Housing or a qualified affordable housing developer prior to 25 percent occupancy of the Villa Street project. The Applicant would also be required to pay any additional costs above $6.2 million to the City. The City will work with the qualified affordable housing developer to rehabilitate the 48 deed-restricted units.

Additionally, staff recommends that there be a preference for displaced tenants for the 17 BMR on-site units at the Villa Street project.

Staff believes that this hybrid option, by linking the acquisition of Mariposa as a condition of the Villa Street project, could ensure the greatest likelihood of a "win-win" scenario: increasing the number of BMR units while also acquiring an apartment building that could be subject to demolition by a market-rate developer and cause displacement. However, note that the Applicant has stated that it would not work with the City on a Mariposa acquisition if required to provide BMR units at the Villa Street project. If Council requires both on-site BMR units at Villa Street and the rehabilitated units at Mariposa through the acquisition of the property by an affordable housing developer and a financing contribution by the Applicant and the City, it is possible the Applicant could choose to withdraw their alternative mitigation request no later than at the Tuesday, December 3, 2019 City Council meeting, keeping the existing BMR requirement of 34 on-site units. If the Applicant does withdraw the BMR modification request and Mariposa is not acquired by an affordable housing developer, then the Applicant could move forward with marketing the Mariposa property to a market-rate developer, thus, potentially displacing the tenants, although the same considerations regarding SB 330 and future City requirements for displacement response would still apply.

If Council conditions the project with this hybrid option and the Applicant accepts, then the existing Villa conditions of approval must be modified and staff would work with the Applicant and Bridge on deal terms for the acquisition of Mariposa (Recommendations 1 and 2).

ENVIRONMENTAL REVIEW

The original proposal for 1696-1758 Villa Street went through an Environmental Impact Report (EIR) process. The EIR included project-level mitigation measures that would reduce all potential environmental impacts from the project to less-than-significant levels. The mitigation measures are included as conditions of approval in the project as well as the Mitigation Monitoring and Reporting Program. The final EIR was certified by Council at the June 4, 2019 meeting.

Since the project now proposes a modification which was not previously discussed in the project EIR, an addendum to the Final Environmental Impact Report was developed to include the 660 Mariposa Avenue site as part of the project's environmental scope in accordance with the CEQA Guidelines. None of the triggering factors contained in the CEQA Guidelines that would require the preparation of a subsequent or supplemental EIR are present as a result of the proposed project.

FISCAL IMPACT

The recommended hybrid option would require up to $8.2 million in City contributions through its housing funds for the acquisition of Mariposa. The City currently has approximately $48 million in uncommitted housing funds and an existing pipeline of seven projects that would yield 500 to 700 new units, which would require more than the $48 million. Therefore, although there is some queueing of the existing pipeline, it is possible that funding a Mariposa acquisition could delay one or more projects. The City anticipates receiving approximately $34 million in Housing fees for Fiscal Year 2020-21, consisting of $21 million in BMR in-lieu fees and $13 million for Commercial impact. However, this is still not sufficient funding to fund all the proposed affordable housing projects.

ALTERNATIVES

1. Accept the Applicant's BMR alternative mitigation proposal to work with Bridge Housing to rehabilitate and deed-restrict the 48 units at Mariposa through a regulatory agreement with the City.

2. Keep the existing condition of approval requiring 34 BMR on-site units in perpetuity but modified to include a preference for tenants displaced from 660 Mariposa Avenue.

3. Deny the proposed alternative mitigation and keep the existing conditions of approval with no changes, which requires 34 on-site units.

4. Modify the "Hybrid" option with some other combination of BMR units and City contribution.

5. Provide other direction.

PUBLIC NOTICING

The Council's agenda is advertised on Channel 26, and the agenda and this report appear on the City's website. All property owners and tenants within a 750′ radius were notified of this meeting.

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Attachments:
1. Resolution Approving a Modification to the BMR Requirement—Hybrid Option
2. June 4, 2019 City Council Report
3. Prometheus Proposal Dated September 5, 2019
4. Bridge Housing Mariposa Preservation Summary Submitted August 30, 2019
5. Evaluation of Applicant's Alternative Mitigation Proposal