

DATE: May 10, 2022

TO: Honorable Mayor and City Council

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VIA: Kimbra McCarthy, City Manager

TITLE: **Affordable Housing at 87 East Evelyn Avenue**



STUDY SESSION MEMO

PURPOSE

The purpose of this Study Session is to receive Council's feedback on the Project Principles and Development Priorities for future affordable housing development on the former Valley Transportation Authority site at 87 East Evelyn Avenue. Council's direction at today's Study Session will inform the Request for Qualifications and Request for Proposals process that staff will initiate to select an affordable housing developer for the site.

BACKGROUND

On May 7, 2019, Council unanimously authorized the City Manager to negotiate and execute with Valley Transportation Authority (VTA) a long-term lease with an option to purchase the VTA property located at the southwest corner of East Evelyn Avenue and Pioneer Way (APN 160-65-008) for use as future affordable housing (See Attachment 1). On September 19, 2021, the City and VTA signed a lease agreement that included the following terms:

- **Term:** 65-year ground lease with option to extend for an additional 34 years for a total of 99 years.
- **Base Rent:** Base rent is \$11 million with \$100,000 paid upon execution of the lease; \$10.9 million due 120 days after the due diligence period (paid in January 2022); and \$2 million due in Year 10 should the City not exercise the option to purchase.
- **Purchase Option:** The City can exercise the right to purchase beginning in January 2023 and ending in January 2032 (before Year 10). The purchase price is \$13 million, inclusive of the base rent paid (meaning the City will pay an additional \$2 million to purchase the site).

The City intends to exercise its purchase option in January 2023 and anticipates ground leasing the site to an affordable housing developer.

- **Continuing Federal Interest/Retained Rights:** VTA originally purchased the property with a grant from the Federal Transit Administration (FTA), and, thus, the FTA maintains an interest in the land. The ground lease and the grant deed that would be used to convey the property to the City include reference to the continuing FTA interests in the land. The FTA has typically allowed affordable housing on property originally purchased with FTA funds. The FTA has reviewed and approved the ground lease and purchase and sale agreement which fully describe the proposed use of the land.
- **Use Restrictions:** Most of the use restrictions expire upon the City's purchase of the property. VTA does have the option to buy back the property if the City/developer fails to obtain building permits and commence construction of affordable housing within 10 years of the commencement of the ground lease (subject to an extension in certain circumstances). As noted above, the City intends to exercise the purchase option. The following use restrictions for developing the site as affordable housing will still remain under the City's ownership: (1) The site must be developed at a density of at least 75 units per acre unless the City requests a revision to the density subject to VTA approval; and (2) if there is a preference for Mountain View residents, the City must also include VTA employees in this preference.
- **Interim Use:** Once the City owns the site, safe parking is allowed as an interim use until the site is ready for the affordable housing construction.

Site Description

The site is a rectilinear site, and it is approximately 2.1 acres in size. The site is bordered by Pioneer Way, East Evelyn Avenue, and office buildings at 57 to 67 East Evelyn Avenue and 82 Pioneer Way. Across East Evelyn Avenue is the Caltrain railroad tracks, and just beyond the adjacent property at 57 to 67 East Evelyn Avenue is State Route 85. The property is approximately 0.5 mile from the Mountain View Transit Center and 0.2 mile from an entrance to the Stevens Creek Trail.

The site currently has a General Plan Land Use Designation of High-Intensity Office and is zoned General Industrial (MM). The site is currently being used as a safe parking location as allowed by the lease agreement. Additional discussion on the transition plan from safe parking to affordable housing is provided later in this Study Session memorandum.

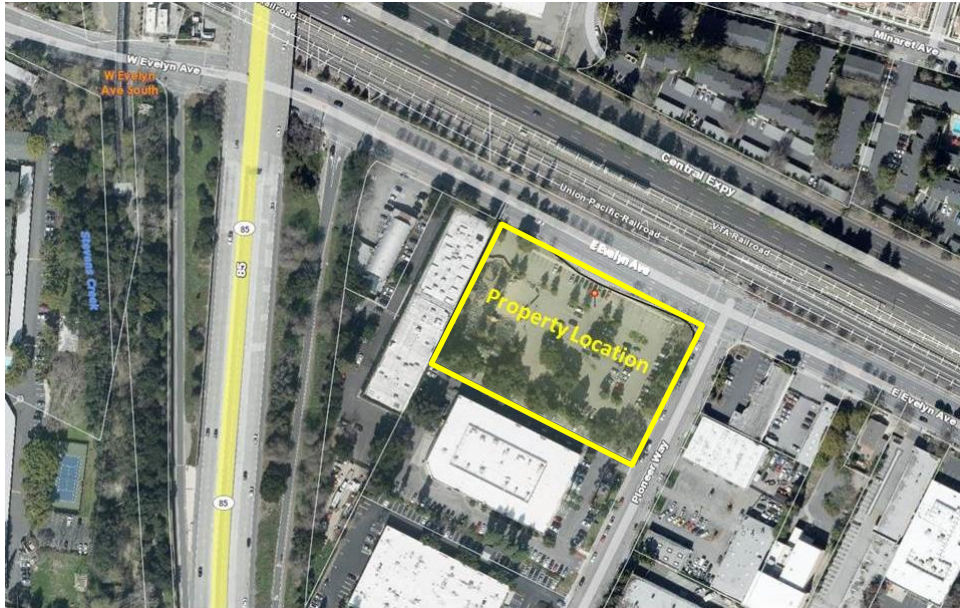


Figure 1: Parcel at 87 East Evelyn Avenue

In advance of entering into the lease, City staff engaged in initial due diligence, which primarily entailed environmental reviews to evaluate site suitability for affordable housing. Additionally, staff obtained a title policy to cover the City's interest in the property. The City's consultants have begun an American Land Title Association Survey to prepare for eventual City ownership and marketing of the site.

DISCUSSION

The City intends to issue a Request for Qualifications (RFQ)/Request for Proposals (RFP) for the site shortly after this Study Session. To prepare for the RFQ/RFP, staff engaged economic and design consultants to conduct feasibility scenarios for future affordable rental housing on the site. The feasibility scenarios included both economic and land-use analyses.

Project Principles

The following principles were used in the project analysis:

1. Address unmet housing needs: The size, location, and City-owned nature of the site offer an extraordinary opportunity to build an affordable housing development that meets the City's needs. This meant focusing on building the type of units that are in high demand but are less represented in the City's current housing stock. These include units for larger families, units at deeper affordability levels, and permanent supportive housing.

2. **Balance density and amenities:** The size of the site allows for a large number of units, but more units also require more open space and community space in order to adequately serve the residents. A balanced approach allows for maximized units as well as high-quality services and community space.
3. **Consider location:** The site's location close to downtown, Stevens Creek Trail, and Caltrain makes it particularly well-suited for housing. The site is, however, in a location that is primarily industrial, and the site design will need to facilitate a residential feel for residents and neighbors.
4. **Consider cost:** The City's affordable housing pipeline exceeds projected available funds. While it is expected that the City would provide supplemental funding for this development with projected housing impact fees, the RFQ/RFP will make it a priority that affordable housing developers leverage and maximize external funding sources, all else being equal.
5. **Quality:** Affordable housing should be well-designed and high-quality. Developers should consider placemaking and community building in their proposal. The development should be a place of which the residents and City can be proud.

Feasibility Scenarios

The feasibility scenarios studied the following:

Parameter	Scenarios	Tradeoffs and Considerations
Density	The terms of purchase for the site require a minimum density of 75 dwelling units per acre. Staff studied scenarios up to 120 dwelling units per acre (the upper end of affordable housing developments developed so far in the City). Staff assumed that the site would be rezoned as R4, with a density of 80 dwelling units per acre and a potential unlimited density bonus due to the affordability levels and proximity to the Downtown Transit Center.	<ul style="list-style-type: none"> • Higher-density projects: <ul style="list-style-type: none"> – Provide more affordable units. – Need to be balanced with appropriate services and amenities to support the number of households. • Lower-density projects: <ul style="list-style-type: none"> – Do not maximize the opportunity to build affordable units, particularly in an area very close to downtown and transit. – May be a result of larger unit sizes to accommodate families.

Parameter	Scenarios	Tradeoffs and Considerations
Affordability Levels	<p>Staff explored affordability scenarios between 30% AMI and 110% AMI, with a weighted average of less than 50% of Area Median Income (AMI) to be competitive for State funding sources and to meet priority housing needs.</p>	<ul style="list-style-type: none"> • The scenarios that maximize lower-income AMI levels address affordability needs that the City's inclusionary Below-Market-Rate (BMR) program typically does not address. • Moderate-income affordability units have a very limited source of funding and may not be as beneficial when moderate rents are comparable to market-rate rents. • Lower-income units are more competitive for outside funding sources but likely require deeper City subsidies. • A mix of income levels allows higher rent levels to support the development and inclusion of lower rent levels.
Resident Population	<p>Staff analyzed key priority housing needs that the City faces for affordable housing development, including:</p> <ul style="list-style-type: none"> • Units for large families. Two- and three-bedroom units are consistently in high demand when BMR units are released, and much of the City's existing affordable housing units are studios and one-bedroom units. • Supportive housing for the formerly unhoused. The City's current affordable housing pipeline will not provide enough units for unhoused households who need additional support services and subsidies to maintain housing. 	<ul style="list-style-type: none"> • Supportive housing requires putting in place high-quality support services, which is an operating cost that requires ongoing funding. • Mixing populations with different service needs requires robust property management and thoughtful design to allow for different spaces for different populations. • Mixing populations creates opportunities for truly integrated housing, creates inclusive communities, and addresses fair housing concerns.

Parameter	Scenarios	Tradeoffs and Considerations
Parking	Staff assumed that the site would qualify for reduced parking requirements due to Density Bonus Law. In general, recent affordable housing developments in Mountain View have had lower parking ratios of approximately 0.5 space per unit, but those developments have mostly been composed of studios or one-bedroom units, while almost all of the Evelyn Avenue scenarios considered for this development consist of at least one-half two- and three-bedroom units. The feasibility scenarios prioritized maximizing the number of units for families and supportive housing, creating amenities, and minimizing project cost and City contribution and, therefore, considered parking ratios of 0.5 space and 0.75 space in the modeling.	<ul style="list-style-type: none"> Higher parking ratios allow residents to have the option of having cars and minimize potential for underparking a site. Higher parking ratios could lead to overparking a project, especially in scenarios where the residents may not have or depend on cars or where mobility needs are met by TDM measures. Higher parking ratios increase development costs and decrease project feasibility and may require larger subsidies from the City to build parking.

PROPOSED DEVELOPMENT PRIORITIES

Based on the scenarios, priority needs, and tradeoffs/considerations described above, staff recommends the following development priorities for the 87 East Evelyn Avenue site:

Density

Given the tradeoffs of differing densities, staff recommends finding a balanced approach with a density of approximately 80 to 110 dwelling units per acre, with a preference for higher density, if community amenities can be accommodated.

This approach will allow developers to take advantage of the large site while also making room for community space, open space, and services. Developers would be encouraged to propose a range of amenities that would appropriately serve the resident population mix, potentially including child-care space, playground space, and space to provide mobile food distributions or health services.

This density would likely lead to a project with buildings heights between five and, at most, eight stories tall. The developer will be required to demonstrate excellent design and interfaces with the adjacent uses. The taller height would allow at-grade or aboveground parking in the building, which would be less expensive than building a subterranean garage.

Resident Population and Affordability Levels

- *Units for large families (two- and three-bedroom units).*
 - Most affordable housing developments in Mountain View primarily consist of studios or one-bedroom units. There are much fewer two-bedroom units and almost no three-bedroom units. The current Housing Element draft and the City's previous Housing Element identify units for larger families as a City priority, and Below-Market-Rate (BMR) lotteries frequently show high demand for larger-family units.
- *At least 30% of units for households earning 30% AMI or below, inclusive of supportive units for formerly unhoused households, are reflective of the current unhoused population in Mountain View.*
 - There is a priority need for affordable housing at the lowest income levels as well as housing for the unsheltered or who are at risk of becoming unsheltered. Increasing affordable housing and responding to homelessness are also two of the priority goals on the City's Federal 2020-25 Consolidated Plan.
 - The City's Guaranteed Basic Income analysis found that over 6,500 households in Mountain View are identified as "extremely low-income," or earning 30% AMI and below, and the City's 2023-2031 Regional Housing Needs Allocation (RHNA) goals include 2,773 very low-income units, of which one-half are assumed to be extremely low-income.
 - While Mountain View has made strides in providing temporary and interim housing opportunities, most of the existing permanent housing opportunities in the City are not geared for participants in those programs as there are no supportive services, and the required income levels often exceed the income levels of unhoused community members.
 - While there are approximately 200 supportive housing units in the City's pipeline, this will not be sufficient to house the over 600 unhoused Mountain View residents counted in the 2019 Santa Clara County Homeless Point-in-Time Census, nor the many others who are at risk of losing their housing.
- *Units available to a diversity of income levels up to 80% AMI, with a weighted average below 50% AMI.*
 - In addition to the 30% AMI units, the remainder of the project site would include units targeting households with a mix of incomes meant to fill a diversity of needs and also allow for a range of rents to support the long-term feasibility of the project.

Parking

As noted, the feasibility scenarios studied ratios of 0.5 and 0.75 parking space per unit. The RFQ/RFP will ask applicants to propose a parking plan that balances the parking ratio with other project features. If the applicant proposes a lower ratio than the typical requirement or lower than what the State Density Bonus would require, the applicant shall include rationale supported by a proposed TDM plan and with the acknowledgement that a parking study may be required during the project entitlement phase. This recommendation for minimizing parking is based on the following:

- Minimizing project costs and maximizing project feasibility by decreasing the need for digging subterranean parking;
- Recognizing the lower-income levels of the proposed population, particularly those who qualify for supportive housing, which often involves lower car ownership;
- The location of the site close to Downtown Transit Center, resources, and trails; and
- A requirement for the selected developer to incorporate a robust transportation demand management program to decrease demand for parking and incentivize the use of other modes of transportation, supported by a parking study.

Additional Elements to be Included in the RFQ/RFP

In addition to the items above for Council consideration, staff proposes including the following in the RFQ and RFP for affordable housing developers to note:

Not a Revenue-Generating Project

Like other City-owned sites for affordable housing, staff recommends affirming that revenue generation is not a priority for the Evelyn Avenue site. Due to the challenges of financing an affordable housing project—caused significantly by high land costs—staff recommends that the City contribute the value of the land to the project. The developer will provide a nominal ground lease payment, and the City will retain ownership of the land.

City Subsidy

The City's underwriting guidelines for affordable housing state a preference for the City subsidy to be a 1:4 ratio, meaning the City subsidizes approximately 20% of the funding needs for the development, requiring the developer to leverage and secure external funding. The City's ownership of the land will be considered as part of the City's contribution, but the project will

also require additional City subsidy. Both the land value contribution and the direct subsidy will be counted together when calculating the total as well as the ratio of the City's contribution to the project. Given the size of the project, it is anticipated that the City's absolute contribution will be higher than recent projects, but may not be significantly higher when considered on a per-unit basis.

It will be expected that the developer seek significant outside funding sources, such as State funding, County funding, Housing Authority project-based vouchers, and private funds to fund this development. All else being equal, a lower City subsidy request will be considered more favorably. If a proposal includes a mixed-use/commercial component to the project, City funding will only be available for the affordable housing portion of the project (including the associated parking and amenities for the residential component). City funding is not available for any nonresidential (i.e., commercial) components of the project, including the parking for the nonresidential component.

Two-Phase Project Allowed

The low-income housing tax credit program is typically the largest source of funding for an affordable housing project. However, due to the requirements and nature of the tax credit program, most 100% affordable housing developments funded with tax credits are limited to a project size of 60-120 units. Given the size of the Evelyn Avenue site and the target density range of 80 to 110 DUA, this may lead to a total of 160 to 220 units. As a result, the project may need to be in two phases in order to qualify for maximum tax credits to enable the financial feasibility of the entire project. Therefore, the RFQ/RFP will allow the applicants to propose a two-phased project if it is necessary for feasibility. The RFQ/RFP will require applicants to provide a project timeline based on their proposal.

Amenities/Design

RFQ/RFP respondents will be asked to propose appropriate amenities for future residents, including open space (featuring separate areas for different populations, such as families with children or single adults), community rooms, and other programming and support services space. These amenities shall be well-designed and incorporated cohesively into the building and overall site plan, with appropriate circulation, utilities, and life/safety considerations.

General Plan and Zoning Designation

As noted earlier in this Study Session memorandum, the site has a General Plan land use of High-Intensity Office and is currently zoned General Industrial (MM). As a result, any residential development on the site will require a General Plan Amendment (GPA) and Zoning Map Amendment along with typical development permits to proceed as a residential development.

Staff will work with the selected developer to determine the appropriate land use process to facilitate the project proposed by the selected developer.

Current Safe Parking Site

The current lease with VTA requires the safe parking program to close by January 2024, but once the City owns the site, it can set its own timeline based on the development of the site for permanent housing. As the development proceeds, staff will continue to seek options for the current safe-parking residents, including other safe-parking sites, as well as potential pathways to permanent housing at this site or others in the City's affordable housing pipeline. Staff will meet with safe-parking residents to better understand the most appropriate pathways for these households and will work with the current safe-parking provider to put a transition plan in place. Developers will be asked to work with the City on possible programs that allow for a pathway for current safe-parking participants and other unhoused Mountain View residents into this site.

Master Planning Considerations with Adjacent Property

Charities Housing recently purchased the directly adjacent site, 57 to 67 East Evelyn Avenue. Charities Housing staff has been in touch with City staff and intend to apply for City funding to support the development of affordable housing on the property. Combined, the two sites would provide over four acres of land for affordable housing in this area. As the two properties proceed, City staff will look for opportunities to coordinate the two projects. This may result in connected open spaces, shared amenities, construction staging coordination, coordinated land use processes, or collaborative efforts to seek outside funds.

Depending on the timing of each of the projects, the NOFA process for the Charities site and the RFP process for the VTA site offers opportunities to either Master Plan the developments in the best-case scenario or, at a minimum, coordinate common features such as open space, plazas and gathering spaces, and circulation on both sites. Master-planning the two sites in a coordinated effort could yield a development that is greater than the sum of their parts. The site could be developed more efficiently due to shared infrastructure, utilities, open space, amenities, parking, and other design elements. This could help lower the development costs per unit, which increases the economic viability of the project, as well as increasing the number of units that can be included in the project, which would further help with feasibility and would also assist more households. Charities Housing has initially indicated a willingness to coordinate the process with their development on the adjacent site.

RFQ/RFP Timeline

Based on past projects, the expected project timeline is noted below.

- June 2022: Release RFQ.

- July 2022: Q&A opportunities with respondents.
- August 2022: RFQ responses due.
- November 2022: Release RFP.
- January 2023: RFP responses due.
- January 2023: Exercise site purchase option.
- February 2023: City Council selects preferred developer.

RECOMMENDATION

This Study Session gives Council the opportunity to provide input on the future parameters of affordable housing at the Evelyn Avenue site. Staff requests Council feedback on the following question and any other project related comments:

Does Council agree with staff's recommended Project Principles and Development Priorities for affordable housing at the site located at 87 East Evelyn Avenue, including:

- **Proposed mix of residents, particularly a significant number of family units;**
- **Proposed approach regarding density;**
- **Proposed approach regarding the parking ratio; and**
- **Any other considerations.**

PUBLIC NOTICING

The City Council's agenda is advertised on Channel 26, and the agenda and this Study Session memorandum appear on the City's website. All property owners within a 750' radius and other interested stakeholders, including developer partners and safe-parking residents on the site, were notified of this meeting.

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Attachment: 1. May 7, 2019 Council Report