



**DATE:** January 26, 2021

**CATEGORY:** New Business

**DEPT.:** Community Development

**TITLE:** **Hotel Acquisition Opportunity to Address Housing Needs**

### **RECOMMENDATION**

That the City Council direct staff to work with the County of Santa Clara to facilitate the acquisition and rehabilitation of Crestview Hotel, located at 901 East El Camino Real, to meet various housing needs, such as for persons experiencing or at risk of homelessness and/or for displaced tenants.

### **BACKGROUND**

In October 2021, the owner of Crestview Hotel at 901 East El Camino Real contacted staff about whether the City might have interest in acquiring the hotel to help meet various housing needs. The idea came to the owner because he heard about the State's Project HomeKey program and the City's joint project currently under way with LifeMoves. Although the application period to the State program had already closed, staff conveyed to the owner that a hotel acquisition could align with and support the City's efforts regarding homelessness response and addressing tenant displacement.

After the initial discussion with the owner, staff conducted a preliminary evaluation regarding the opportunity. Additionally, given the City's existing affordable housing project pipeline and limited housing funds available, staff held discussions with the County about a potential partnership, and the County is very interested.

The following is a summary description of the hotel:

- Built in 1985.
- 67 total rooms:
  - 53 one-room suites (280 to 300 square feet each).

- 13 two-room suites (450 to 500 square feet each).
- One manager's suite (1,100 square feet).
- All rooms are served by interior corridors.
- Includes six retail pads at approximately 1,000 square feet per pad.
- 80+ parking spaces for hotel and retail.

## ANALYSIS

### Meeting Housing Needs

The City has undertaken several efforts to address a wide range of housing needs/issues in alignment with the Council Major Goals. Examples include:

- Funding affordable housing projects through the City's Notice of Funding Availability (NOFA) process;
- Partnering on projects to address homeless housing needs, such as Project HomeKey;
- Developing a strategy to mitigate the impacts of tenant displacement, including an acquisition/preservation program;
- Partnering with the County to provide emergency and temporary services for the unstably housed and homeless with a local shelter capacity, serving 63 persons during the cold weather season; and
- Providing up to five 24/7 safe parking lots serving up to 101 participants.

Staff believes that Crestview Hotel presents an opportunity to address two key housing needs:

1. Rapid Rehousing for Homeless Persons and Households. The City has been working on various efforts to address the continuum of housing needs for homeless persons. This has included working with the County to develop a Citywide, programmatic approach to create 200 to 250 units of rapid rehousing (RRH) and/or permanent supportive housing (PSH) as well as partnering with LifeMoves on Project HomeKey to provide 100 units of interim housing for homeless persons.

Project HomeKey site work is well under way, and it is anticipated that the development will be complete and client move-ins will begin by April 2021. However, although there are affordable housing projects in the City's pipeline slated to include some RRH/PSH units, such as La Avenida and Montecito, the completion of the first of such units is at least a few years away. Crestview Hotel could result in the delivery of RRH much more quickly to address the significant homeless housing needs.

2. Housing for Displaced Tenants. Residential redevelopment projects over the past several years have led to the demolition or scheduled demolition of over 1,000 rent-stabilized units. Evaluating and developing a displacement response strategy is one of the Council's top items on the Fiscal Year 2019-21 Major Goals Work Plan. As part of the strategy, Council has supported the evaluation of a program to acquire and preserve existing rental units as well as to work with landlords to set aside existing rental units they own to house, temporarily or permanently, tenants displaced from their demolished rental units. These evaluation efforts are currently under way, but no programs have yet been established by Council. In the meantime, the acquisition and rehabilitation of Crestview Hotel could result in units to assist displaced tenants much sooner.

### **Partnership with the County**

Staff had several discussions with the County about partnering on the Crestview Hotel project and has identified some key partnership areas. The following is a summary of the potential partnership roles, should Council approve moving forward with acquisition of Crestview Hotel. Note this is not an exhaustive list due to the still-preliminary nature of the discussions, and additional roles may still need to be identified and memorialized.

- Acquisition of the Crestview Hotel. Due to limited City funding, it is anticipated that the County would provide the funding for the acquisition using 2016 Measure A, Affordable Housing Bond (Measure A), funds. The County has stated that acquiring the hotel for rapid rehousing would align with Measure A parameters and would be of interest for the County. Additionally, the County is working on at least two other hotel acquisition projects in other jurisdictions and, therefore, has experience that would be relevant to the acquisition of Crestview Hotel.

The County would issue a Letter of Interest (LOI) to the owner to begin the negotiation and acquisition process. An appraisal and other due diligence would be initiated by County, and the County would bring an item for Board consideration to acquire the site.

- Rehabilitation/Renovation of the Crestview Hotel. While the City does not have sufficient funding to acquire the hotel, it does have approximately \$3.7 million in Federal Community Development Block Grant (CDBG) and HOME Investment Partnership (HOME) funds that are available for projects, such as rehabilitating/renovating Crestview Hotel.

The owner has stated he had recently completed cosmetic renovations in the hotel and room interiors. No rehabilitation work was conducted within the walls, and the owner is not aware of issues with the existing plumbing, utilities, HVAC, etc. None of the rooms include kitchen facilities. Examples of what CDBG/HOME funding could be used for include:

- Installation of kitchenette/kitchen facilities in each unit;
- System upgrades/rehabilitation, such as plumbing, etc., if needed;
- Other renovations as needed to make the units suitable for residential use;
- Site work, such as parking, site access features, etc.; and
- Soft costs, such as legal, environmental review/remediation (if needed), planning/permit costs, etc.

The scope of rehabilitation/renovation work will be determined at the appropriate time if the acquisition is successful. Similarly, the amount of CDBG/HOME funding that will ultimately be needed will depend on the scope of work. Based on very preliminary cost estimates for the installation of kitchen facilities, and assuming that there are no costly system upgrades that would be needed, it is estimated that the \$3.7 million in CDBG/HOME funding would be enough to cover the rehabilitation/renovation costs.

- Joint RFP Process. If the County successfully acquires Crestview Hotel, it is anticipated that a joint Request for Proposals (RFP) with the City will be issued for the site to its qualified nonprofit developer list. It is likely that the site would be leased to the selected developer, who would perform the necessary rehabilitation/renovations and operate the project.
- Outreach to Unhoused Persons or Displaced Tenants. The City and County will develop an outreach plan to unhoused persons or displaced tenants who would qualify for the units at Crestview Hotel. Note that because this site has on-site

parking available, Crestview Hotel may be a viable option to house those living in vehicles.

### **NEXT STEPS**

If Council approves the recommendation to pursue the acquisition and rehabilitation of Crestview Hotel in partnership with the County, the County will begin the LOI and negotiation process. If successful, staff will work with the County to develop a Memorandum of Understanding (MOU) documenting the City's and County's roles and will return to Council for approval of the MOU.

Additionally, the City's Fiscal Year 2021-22 Annual Action Plan will include the use of CDBG and HOME funding towards this project, and Council will consider adoption of this plan in April 2021. Once adopted, the funds will be appropriated via the City's budget process and be available for use on rehabilitating/renovating the hotel in Fiscal Year 2021-22. Note that the City recently opened its CDBG NOFA for public services as part of the Fiscal Year 2021-22 Annual Action Plan process. Approximately \$340,000 in CDBG is available for public service activities to be spent over a period of two years as well as \$171,000 in General Funds for public service activities to be spent over a period of one year. These funds are in addition to the \$3.7 million of CDBG/HOME funding for capital projects as recommended in this report for use on the Crestview Hotel.

Finally, public outreach to the community and specifically to the adjacent neighborhood will be conducted to seek input on the project.

### **FISCAL IMPACT**

Staff recommends using up to \$3.7 million in available CDBG/HOME funds for the rehabilitation/renovation of Crestview Hotel. The County still needs to successfully negotiate and acquire the site, and an estimate of the rehabilitation/renovation scope of work and costs still needs to be determined. If the cost of the rehabilitation/renovation is less than \$3.7 million, the remaining funds may be used for other projects.

### **ALTERNATIVES**

Direct staff to not pursue the acquisition and rehabilitation of Crestview Hotel in partnership with the County.

**PUBLIC NOTICING**

Agenda posting and courtesy notice sent within a 750' radius of the hotel.

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