



**DATE:** May 19, 2020

**CATEGORY:** New Business

**DEPT.:** Community Development

**TITLE:** **Selection of Lot 12 Preferred Development Team**

### **RECOMMENDATION**

That Council:

1. Select the preferred development team for the Lot 12 residential/mixed-use development.
2. Authorize the City Manager, or her designee, to execute an Exclusive Right to Negotiate Agreement with the selected development team and commence the negotiation process for development of Lot 12.
3. Authorize the City Manager, or her designee, to execute an amendment to the Exclusive Right to Negotiate Agreement to extend the term for an additional 60 days if negotiations are not complete but are progressing.
4. Adopt a Resolution Reserving \$1,000,000 from the Low- and Moderate-Income Housing Asset Fund to Assist in the Development of Affordable Housing on Lot 12, to be read in title only, further reading waived (Attachment 1 to the Council report).

### **BACKGROUND**

In 2019, the City initiated a two-step process for the redevelopment of the 1.4-acre Lot 12 site, currently a City-owned 160-space public parking lot one block north of City Hall, into a residential mixed-use project.

The first step began with a Request for Qualifications (RFQ), with a response period from May 15, 2019 to August 1, 2019. Six development teams submitted a response to the RFQ. On September 10, 2019, Council considered the responses and invited all six teams to apply to the forthcoming Request for Proposals (RFP) process. At the same

time, Council provided final direction for the Lot 12 development priorities (summarized below).

Subsequently, the City initiated the RFP process, with a response period from December 16, 2019 to March 2, 2020. A Lot 12 RFP website was created ([www.mountainview.gov/lot12](http://www.mountainview.gov/lot12)) and a pre-submittal conference was held on January 6, 2020 for the City to review the RFP material and to answer any questions interested respondents might have had.

Five development teams submitted a response, including: Affirmed Housing (Affirmed), EAH Housing (EAH), Eden Housing (Eden), MidPen Housing (MidPen), and Related/Palo Alto Housing Corporation (PAHC) as a joint development team. On April 2 to April 3, 2020, City staff, with assistance from its Lot 12 consultants (Seifel Consulting and International Parking Design (IPD)), evaluated each of the five submittals, and on April 27 and April 28, 2020, the City held interviews with the five teams as part of the evaluation process.

The results of the evaluation process are included in the Analysis section below to assist Council's selection of the preferred Lot 12 development team. Note that selection of the development team is not an approval of the proposal as submitted. The selected development team would need to enter into a negotiation process with the City to agree on the project's deal terms, and a formal planning application must be submitted for review and Council approval through the City's entitlement process.

### **Lot 12 Development Priorities**

Over the past few years, Council has provided input on the development priorities for Lot 12 in various Study Sessions and finally during the September 2019 RFQ deliberation meeting as noted above. The following are the key priorities, with more detailed information included in the RFP (see Attachment 2):

- **Residential:** Up to 120 residential units, with a minimum 50 percent of the units as affordable for households earning up to 80 percent of the area median income (AMI) adjusted for household size. Flexibility on target population.
- **Nonresidential Use:** Include up to 10,000 square feet of ground-floor nonresidential use(s). Flexibility on type of use(s), but the Council was not supportive of office use. Desire for unique or innovative uses that can also create a sense of place and serve the residents as well as the broader community. Potential for minimal City contribution to help subsidize desirable uses, but a specific amount was not determined, nor was any funding source identified.

- **Height and Design:** Flexibility on height (up to six stories versus three stories as stated in the Downtown Precise Plan for the site) and must incorporate excellent architecture, design, and transitions between adjacent residential uses.
- **Parking:** Replace all 160 public parking spaces and sufficiently park the new uses, but be innovative, incorporate design flexibility, and include a robust transportation demand management (TDM) strategy. There could be support for lower parking ratios for residential and nonresidential if the ratios can be demonstrated to be sufficient when considered in context with the project's design and parking/TDM strategy.
- **Placemaking:** Support for creating a sense of place and for the Lot 12 development to function as a community asset both for the residents of Lot 12 and for the adjacent communities. Examples of amenities ranged from gardens, community art, playground, and a water structure. Something different and unique and that can accomplish a sense of community. Recognition that retail could be more difficult, or needs to be differentiated, due to its location, but would like appropriate retail/mixed-use to be incorporated if possible.

### **Replacement Parking a Key Cost and Design Driver of Lot 12**

Council has consistently affirmed that the redevelopment of Lot 12 must include replacing all 160 public parking spaces ("replacement parking") currently on the site with the project, and this provision is a key component of the Lot 12 RFP. There are several considerations to note regarding replacement parking as it relates to the overall Lot 12 RFP and evaluation of the submittals:

- **Cost:** In an October 2018 Study Session on Lot 12 priorities, staff provided information about the cost of replacement parking, the potential impact of that cost on the overall Lot 12 redevelopment, and the potential City subsidies that may be required for project feasibility. Council recognized that the cost of replacement parking is high, especially via below-grade parking facilities, and supported providing a non-General Fund subsidy for the replacement parking. Council did not specify a maximum parking subsidy amount but did reiterate that minimizing the City's overall subsidy amount for the project and maximizing the leveraging of external funding sources were key Lot 12 parameters.
- **Design and Tradeoffs:** Replacing all 160 public parking spaces can impact the design of the Lot 12 redevelopment, requiring thoughtful considerations regarding

architecture, urban design and massing, placemaking, and creating a high-quality pedestrian realm.

- There are tradeoffs between cost and design considerations. For example, projects with below-grade parking are typically more expensive than those with above-grade parking, but such projects usually lead to a more attractive, pedestrian-oriented project, especially for an urban infill project adjacent to existing residential neighborhoods such as Lot 12. Conversely, it may be less costly to build a stand-alone, above-grade parking garage as part of a project, but it can be more challenging to create an excellently built environment with a high-quality pedestrian realm.
- Council asked for both a high-quality project while minimizing the City's contribution to the project and these specifications were incorporated into the Lot 12 RFP. Therefore, the successful development team must demonstrate, among other elements, the ability to deliver a lower-cost, high-quality project, which can be challenging to do.
- **Off-Site Alternative:** Given the high cost of replacement parking, Council allowed Lot 12 RFP respondents to submit an alternative to replacing all 160 public parking spaces on-site. For example, RFP respondents could demonstrate how some or all of the 160 parking spaces could be provided at another location within downtown, propose payment of a fee in lieu of spaces, or another alternative. As will be shown further below, none of the five respondents submitted proposals that included an off-site replacement parking alternative.

- **Future Repurposing of Parking Facility:** The Lot 12 RFP provided respondents the ability to submit a proposal where the public parking facility could be repurposed for another use in the future. This option is based on the recognition that the City supports the shift to a more sustainable, pedestrian-oriented built environment. Therefore, although there may be demand for the 160 public parking spaces now, shifts in behavior coupled with public policies could reduce the demand for those spaces in the future. In such an event, the ability to repurpose the parking facility to another, higher-value use could be beneficial. Generally, a stand-alone, above-grade parking garage is more easily repurposed, while a below-grade parking garage is more difficult and costly to repurpose.
  - The Lot 12 RFP states the following:

“To the extent possible and meeting other development specifications in this RFP, flexibly design the project to facilitate repurposing parking facilities to other uses in the future.”

Therefore, the ability to repurpose all or a part of Lot 12 parking facilities needs to be considered in the context of meeting other Lot 12 priorities such as high-quality design, minimizing City subsidies, etc.
  - IPD (the City’s Lot 12 parking consultant) has provided input that it is unclear whether market trends and/or consumer behavior will demonstrate that a parking facility could be repurposed to another use in the future, or, if repurposing does become feasible, when that would occur. However, repurposing could occur via policy decisions and not just as a result of market conditions.
- **Clarity of Lot 12 RFP Submittal:** The replacement parking requirement is a significant driver of design, cost, and subsidy considerations for Lot 12. As such, the RFP required that respondents be very clear in their submittals about their overall parking strategy (including replacement parking) and design, and to clearly delineate the replacement parking cost/subsidy request from the affordable housing cost/subsidy request. This is important because the City’s housing funds cannot be used to subsidize any of the replacement parking, and the RFP process only allows staff to ask clarifying questions if information is unclear. Staff does not have the opportunity to have in-depth discussions with any of the respondents during this RFP process, unlike what would occur outside of an RFP process regarding a development opportunity.

## **ANALYSIS**

As mentioned, five development teams responded to the Lot 12 RFP: Affirmed, EAH, Eden, MidPen, and Related/PAHC. Each of the teams has a strong reputation and history of building/managing high-quality affordable housing developments, and staff believes each team has the financial ability and relevant experience to deliver a Lot 12 project generally. However, the evaluation of each submittal focused on the quality, comprehensiveness, and clarity of the teams' responses to the requirements specific to Lot 12, with the following results:

- Staff recommends four teams for Council consideration:
  - Top ranked: EAH (first)
  - Highly ranked: Eden, MidPen, Related/PAHC (all equally ranked)
- Staff does not recommend Affirmed for Council consideration.

Below is a summary of the evaluation process and of each submittal.

### **Evaluation Process**

The evaluation process included: (1) careful evaluation of each submittal using the criteria specified in the RFP and as summarized below; and (2) interviews with each of the respondents.

Evaluation of the submittals was conducted on April 2 and April 3, 2020 with an interdepartmental City review team with staff from the Housing Division, Planning Division, Public Works Department, Finance and Administrative Services Department, and the City Attorney's Office, as well as with the City's Lot 12 consultants (Seifel Consulting as the economic consultant and IPD as the parking consultant) (collectively referred to as "City team" hereafter). The City team then conducted interviews with each of the respondents on April 27 and April 28, 2020 as required by the RFP. Due to the COVID-19 shelter-in-place requirements, the interviews were conducted via Zoom. The final rankings took into consideration both the evaluation criteria scoring and interview performance.

## **Evaluation Criteria**

The following is a high-level summary of the evaluation criteria (more detail is included in the RFP in Attachment 2):

- Development Program and Design (50 percent):
  - Responsiveness and completeness of the response to the RFP and reasonableness of proposed development schedule, including process for community engagement. (10 percent)
  - Quality of proposed development and how well it addresses the Lot 12 development specifications, including residential, nonresidential, parking, architecture/design/massing, and placemaking. (40 percent)
- Financial (50 percent):
  - Thoroughness of documents related to project financing and reasonableness of financial assumptions and financing strategy. (20 percent)
  - Clarity of project financing documents. (10 percent)
  - Amount and clarity of subsidy requests and the extent of and competitiveness for external leveraging/funding sources. (20 percent)

The evaluation criteria reflect the importance of submitting a high-quality proposal given the various Lot 12 priorities and the financing strategy and financial strength/capabilities/experience of the team to successfully work with the City to deliver an excellent project. The RFP did build in some flexibility to allow respondents to submit alternative replacement parking (i.e., off-site) and financing scenarios. No team included an alternative replacement parking scenario, but two teams (Eden and Related/PAHC) included alternative financing scenarios (as discussed below).

## **Recommended for Consideration**

As mentioned, all five respondents are excellent affordable housing developers, but for the purposes of this Lot 12 RFP, staff recommends Council consideration of four of the teams, with EAH the top ranked, followed by Eden, MidPen, and Related/PAHC tied as highly ranked. Table 1 below provides a summary comparison of the four recommended submittals. Additionally, Attachments 3 through 6 provide more details of each of the four recommended submittals. These Attachments are the presentations

that the teams shared during their interview on April 27 and 28 or slightly modified versions, and the teams have agreed to share this information as part of this report.

**Table 1: Summary Table of Submittals Recommended for Consideration**

Rank	Top Ranked	Highly Ranked (tied)	Highly Ranked (tied)	Highly Ranked (tied)
Development Team	EAH (one scenario)	Eden (two scenarios)	MidPen (one scenario)	Related/PAHC (three scenarios)
	<b>Residential</b>			
Number of Units	120 (all affordable)	120 (all affordable)	120 (all affordable)	120 (all affordable)
Weighted Average AMI	44.8%	47.0% to 58.3%	58.0%	45.0% to 59.0%
	<b>Nonresidential</b>			
Square Feet	6,984	9,133	6,900	4,250
Type	Neighborhood and other community-serving uses	6,787 sq. ft. child care; 2,346 sq. ft. café run by nonprofit for hearing-impaired and teaching kitchen	Child care for 60 children; Alternative location for Farmer's Market corner Bryant/California	Community serving retail, Ada's Café, school, services
	<b>Building Height</b>			
Stories	2 to 5 stories	4 to 5 stories	4 to 6 stories	3 to 5 stories
	<b>Parking</b>			
Replacement Parking	160	160	160	160
Residential Parking	73	84	90	85
Nonresidential Parking	0	5	7	0
Total Parking Spaces	233	249	257	245
Parking Facility	Above- and below-grade	Above- and below-grade	Stand-alone above-grade only	Above- and below-grade



Rank	Top Ranked	Highly Ranked (tied)	Highly Ranked (tied)	Highly Ranked (tied)
Development Team	EAH (one scenario)	Eden (two scenarios)	MidPen (one scenario)	Related/PAHC (three scenarios)
	Development Costs			
Total Development Cost	\$101.2 million	\$73.4 million to \$78.6 million	\$88.1 million	\$108.9 million
Total Residential Costs	\$89.3 million	\$62.1 million to \$66.7 million	\$76.1 million	\$97.1 million
Residential Cost/Unit	\$744,300	\$517,700 to \$555,900	\$634,400	\$809,200
Total Nonresidential Costs	\$2.4 million	\$2.8 million	\$4.0 million	1.7 million
Total Public Parking Costs	\$9.5 million	\$9.0 million	\$8.0 million	\$10.1 million
	Subsidy Requests			
City Residential Subsidy	\$7.0 million	\$2.5 million to \$23.1 million	\$7.1 million	\$2.6 million to \$10.9 million
Residential Subsidy/Unit	\$58,300	\$20,800 to \$192,100	\$58,900	\$21,600 to \$90,300
City Non-Residential Subsidy	\$0	\$2.8 million	\$0	\$1.7 million
City Parking Subsidy	\$0	\$6.2 million	\$8.0 million	\$0
Total City Subsidy Requested	\$7.0 million	\$2.5 million to \$32.1 million	\$15.1 million	\$4.3 million to \$12.5 million
Ratio of Outside Funding to City Funding	13.5	1.45 to 28.3	4.9	7.7 to 24.6

As a general note, all four recommended submittals include 120 units, with 100 percent of the units as affordable to households between 30 percent and 80 percent AMI. Each of the teams also articulated that the design and financing strategy of their submittals are a starting point, and, if selected, intends to work closely with the City to ensure that the City's input is thoughtfully considered/incorporated into the project. Each of the four recommended teams will provide a brief presentation of their submittal at this Council meeting.

Below is a summary of each of the recommended submittals, followed by a summary of the submittal not recommended for consideration.

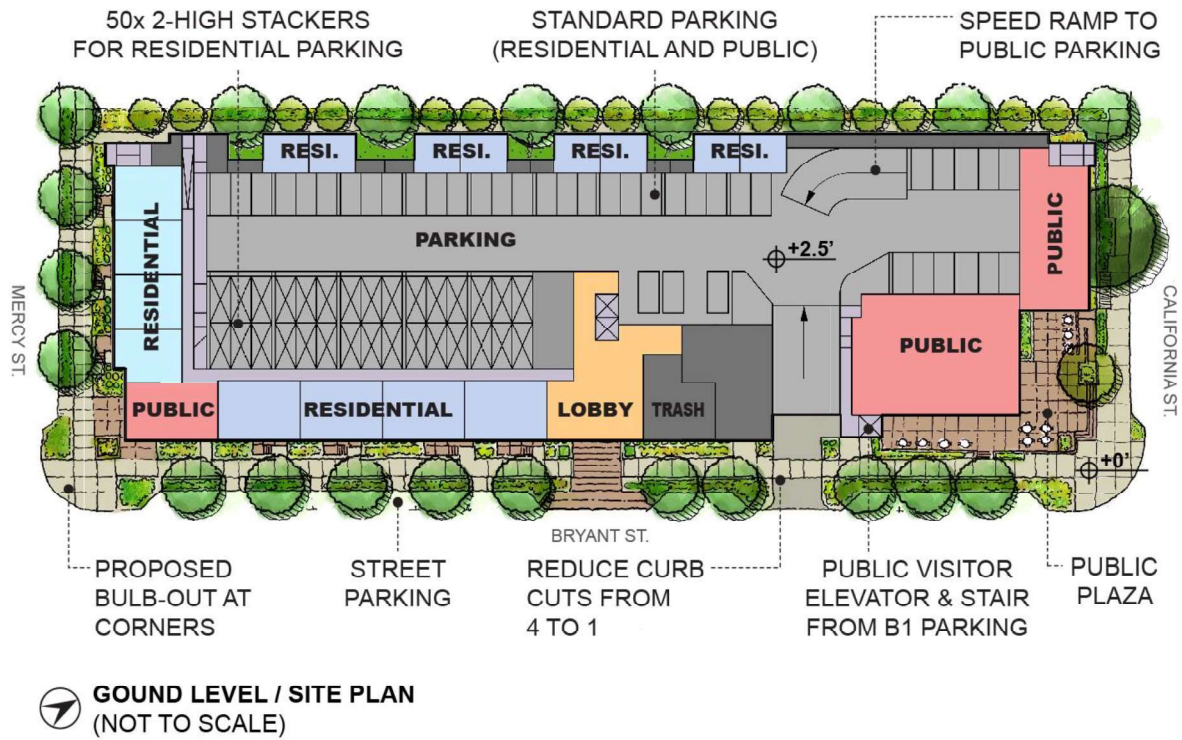
### **Summary of EAH Submittal – Top Ranked**

The City team determined that EAH's submittal was the top ranked based on the quality of its submittal and their interview performance. Below is an image of the proposal's design concept and another of the site plan, followed by a summary of the proposal's key components with additional detail in Attachment 3.

**Image 1. EAH Lot 12 Proposal – Design Concept**



**Image 2. EAH Lot 12 Proposal – Site Plan**



### Summary of Key Components of EAH Lot 12 Proposal

- **Residential:** EAH proposes a 120-unit, 100 percent affordable housing project, for households earning 30 percent to 80 percent AMI. This submittal has a weighted average AMI of 44.8 percent, which is the lowest of the submittals. This means that the project has the deepest income targeting (i.e., housing for the lowest income households) out of the submittals. EAH is proposing to provide 40 units of permanent supportive housing, which would be eligible for Santa Clara County Measure A funding.
- **Parking:** This submittal fully replaces all 160 public parking spaces on-site, has the lowest number of residential parking spaces (73 spaces) and, therefore, the lowest residential parking ratio and provides no parking spaces for the nonresidential use as supported by Council, for a total of 233 parking spaces. All of the parking spaces are below-grade or at-grade with no parking spaces visible from the public right-of-way along Mercy Street, Bryant Street, or California Street.
- **Nonresidential use:** This submittal proposes approximately 7,000 square feet of neighborhood serving uses and associated public plazas that are flexibly designed to allow for a range of neighborhood and other community-serving uses. EAH indicates that they have had initial discussions with the Community Services Agency (CSA) regarding potential needs of future Lot 12 residents and how best to utilize the proposed nonresidential space to support such needs. A portion of the nonresidential space could be used to expand CSA programming as a satellite site to serve both Lot 12 residents and other community members. EAH also proposes to activate the ground floor and adjoining outdoor space with South Bay food and beverage start-ups.
- **Design:** This submittal tied for the highest score on design. The architecture proposed is a strong starting point, the site layout included appropriate massing (with building heights from two to five stories) and transition from the adjacent residential neighborhood, and the most active corner at Bryant Street and California Street is designed to create a public gathering place and feature art.
- **Project cost:** The proposed project cost is \$101.3 million, with the residential portion comprising \$89.3 million of the total, or approximately \$744,000/unit. EAH provided confidential financial data to substantiate the proposed development costs, including a detailed construction cost estimate. Both the total development cost and the residential portion of the project appear to be realistic and reflective of the current cost of development, as the strategies to maximize low-income housing tax credits also appear to be reasonable.

- **Subsidy request:** The total City subsidy requested is \$7 million, which would go entirely towards the affordable housing portion of the project. No City subsidy is requested for the replacement parking, which is impressive given the incorporation of a below-grade parking facility, or for the nonresidential use. This project seeks to highly leverage external funding sources with a ratio of \$13.50 of external funding for every \$1 of City subsidy, thereby minimizing the City contribution. EAH's proposal did an excellent job at presenting their strategies for competing effectively for external funding. As with any highly leveraged project, its success depends on being able to ultimately secure the various funding sources, and the City team believes that EAH has the experience to accomplish this task.
- **Summary:** EAH has submitted a comprehensive, well-designed, and well-reasoned proposal for Lot 12. It was evident in both the submittal and interview that EAH was mindful of the specific Lot 12 context within downtown and Mountain View generally and paid attention to detail. Although the project, if selected, will certainly iterate as it moves through the Exclusive Right to Negotiate (ERN) and entitlement process, the quality and clarity of EAH's submittal gives it a strong starting point. For these reasons, EAH has the top-ranked submittal.

### **Summary of Eden Submittal – Highly Ranked**

Eden submitted a strong Lot 12 proposal and is highly ranked. Below is an image of the proposal's design concept and another of the site plan, followed by a summary of the proposal's key components with additional detail in Attachment 4.



**Image 3. Eden Lot 12 Proposal – Design Concept**



**Image 4. Eden Lot 12 Proposal – Site Plan**



### Summary of Key Components of Eden Lot 12 Proposal

- **Residential:** Eden proposes a 120-unit, 100 percent affordable housing project for households earning 30 percent to 80 percent AMI. This submittal has two affordable housing scenarios: the first scenario has a weighted average AMI of 58.3 percent, while the second scenario has a 47.0 percent AMI weighted average. Eden is proposing to include up to 26 “rapid rehousing” units for individuals and families who are episodically homeless, which would also be eligible for Measure A funding.
- **Parking:** This submittal fully replaces all 160 public parking spaces on-site and includes 84 residential parking spaces and five nonresidential parking spaces for a total of 249 parking spaces. All of the parking spaces are below-grade or at-grade with no parking spaces visible from the public right-of-way along Mercy Street, Bryant Street, or California Street. The below-grade parking facility appears to be well-conceived from a design and circulation perspective.
- **Nonresidential use:** This submittal proposes nearly 6,800 square feet of child-care space, a 2,350 square foot café run by a nonprofit, and a teaching kitchen. The child-care facility is located at Mercy Street and Bryant Street, and the café/kitchen is at California Street and Bryant Street, with a public plaza midblock on Bryant Street. The intent of the location of these uses is to activate the development along its entire length.
- **Design:** This submittal has a good initial design as a starting point. The City team had questions about the gable-roofed buildings (one four-story and the other five-story), but it was designed in such a way as to create visual interest and to break down the massing from a pedestrian’s point of view.
- **Project cost:** Eden submitted two different financing strategies as was allowed by the RFP. The proposed project cost ranges from approximately \$73 million to \$78 million. The residential portion ranges from approximately \$62 million to \$67 million, or \$518,000/unit to \$556,000/unit. These development cost estimates are on the lower end of the submittals, and the City team is uncertain if these estimates are realistic given the high cost of development currently. The basis for the development cost estimates would require further discussion with Eden if they are the selected development team.
- **Subsidy request:** Because two financing strategies were submitted, the requests for City subsidy vary widely. The first strategy has a total subsidy request of \$32.1

million, composed of \$23.1 million for affordable housing, \$6.2 million for the replacement parking, and \$2.8 million for the nonresidential uses. The second strategy (Eden's preferred strategy) has a total subsidy request of \$2.5 million for the affordable housing and does not request any City subsidy for the replacement parking or nonresidential use in this scenario. If the Council selects Eden as the preferred development team, the City team would need to understand: (1) Eden's financing strategy in much greater detail; and (2) how Eden arrived at its low development cost estimate.

- **Summary:** Eden's submittal is highly ranked and has many merits. If selected, the City team has identified several design and financing/subsidy questions where additional information and coordination would be needed. The City team believes that these areas can be worked through, given the experience and skill of the Eden team, though there may be more items to work through at the start when compared to EAH' submittal.

### **Summary of MidPen Submittal – Highly Ranked**

Like Eden's submittal, the MidPen submittal is highly ranked. Below is an image of the proposal's design concept and another of the site plan, followed by a summary of the proposal's key components with additional detail in Attachment 5.

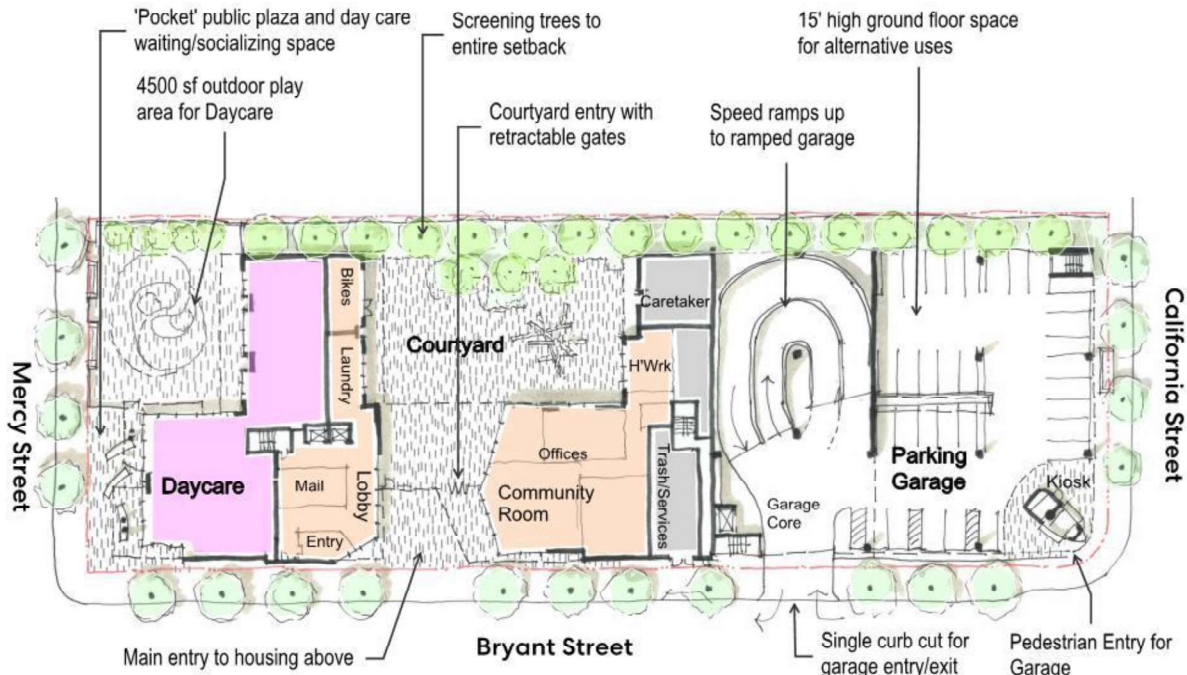
**Image 5. MidPen Lot 12 Proposal – Design Concept**





Image 6. MidPen Lot 12 Proposal – Site Plan

## Site Development Plans



## Ground Level Plan



## Upper Level Plan

### Summary of Key Components of MidPen's Lot 12 Proposal

- **Residential:** MidPen proposes a 120-unit, 100 percent affordable housing project, for households earning 30 percent to 80 percent AMI. This submittal has a weighted average AMI of 58.0 percent, which is one of the highest of the submittals. This means that the project's AMI levels are not as deep as the other submittals. MidPen is proposing to include 16 units for persons with Intellectual/Developmental Disabilities (I/DD) and for homeless families referred from Mountain View Whisman School District.
- **Parking:** This submittal fully replaces all 160 public parking spaces on-site and includes 90 residential parking spaces (highest of all the submittals) and seven nonresidential parking spaces for a total of 257 parking spaces (also the highest parking total of the submittals).

Most notably, MidPen is the only team that submitted a proposal with a stand-alone, above-grade parking garage, which is located on the northern half of the Lot 12 site along California Street and Bryant Street. MidPen articulated several reasons for this approach, including: high visibility for public wayfinding; opportunity for multi-use, sheltered, ground-floor space for public events, such as the alternate farmer's market location; and lower cost, faster speed of construction, and a simpler ownership delineation for long-term management. The City team discussed the pros (e.g., could be more easily redeveloped in the future, opportunity for placemaking, etc.) and cons (e.g., concern with the massing of the garage, proximity to the adjacent residential neighborhood, questions about the design as submitted, the parking subsidy requested, etc.) with an above-grade garage and asked MidPen several design-related questions during their interview. MidPen reinforced its design approach but also articulated that they were open to changes, including a below-grade parking facility instead of a stand-alone, above-grade parking garage. The City team is aware that MidPen has experience building many affordable housing developments with different parking configurations; however, the focus of this evaluation is the proposal with a stand-alone, above-grade parking garage as submitted by MidPen.

- **Nonresidential use:** This submittal proposes 6,900 square feet of child-care space for up to 60 children, which would serve the residents of the Lot 12 development as well as the broader community. The child-care space would be located at the southern end of the development at Mercy Street and Bryant Street and across from the Mountain View Public Library. At the corner of California Street and Bryant Street, the parking garage would have a tall ground-floor height, providing

space for a coffee kiosk and other public gathering uses such as the weekly farmer's market.

- **Design:** As mentioned, the stand-alone parking garage is located on the northern portion of the Lot 12 site, and the residential and nonresidential uses are in a separate building on the southern portion of the site, with heights ranging from four to six stories. MidPen has taken a modern design approach with the residential/nonresidential building. However, MidPen clearly articulated that it is a strong practice of the firm to hold extensive outreach with the community to collaboratively identify design parameters for every project it undertakes. Overall, the design of MidPen's submittal is fundamentally driven by its parking garage. The City team concludes that, while it is conceptually possible to incorporate a stand-alone, above-grade parking as part of the Lot 12 project, there would need to be various modifications to the proposal as submitted to address concerns with design, pedestrian experience, and adjacency with the residential neighborhood, and that, all things being equal, a below-grade parking facility would more effectively achieve a high-quality, pedestrian-oriented built environment.
- **Project cost:** The proposed project cost is \$88.1 million, with the residential portion comprising \$76.1 million of the total or approximately \$634,000/unit. While the estimated residential cost is lower than recent estimates gathered by the City, it is possible that MidPen has identified potential efficiencies to lower the per-unit cost (for example, MidPen indicated that the stand-alone garage would help minimize building complexity and costs), but this would require further discussion with MidPen if they are the selected development team.
- **Subsidy request:** The total City subsidy requested is \$15.1 million composed of \$7.1 million for the affordable housing and \$8.0 million for the replacement parking (i.e., for the stand-alone, above-grade parking garage). This total subsidy request is the highest of the submittals (excluding Eden's high-subsidy scenario, which Eden does not prefer). Although MidPen indicates that one reason for including an above-grade garage is to lower costs, MidPen seeks an \$8 million subsidy for the replacement parking. While the other submittals include below-grade parking facilities, the other development teams either do not seek a replacement parking subsidy or propose an amount less than MidPen's request.
- **Summary:** MidPen submitted a comprehensive and clear Lot 12 proposal, which is fundamentally driven by the choice to provide parking in a stand-alone, above-grade parking garage. If the Council selects MidPen as the preferred developer, there would need to be an emphasis to further examine the garage design in detail and in close coordination with City staff. Other aspects of the project, including

the design of the residential portion of the project, the nonresidential use, and the City subsidy requested, would also require additional discussions. MidPen is a highly respected and accomplished affordable housing developer. The City team does not believe the identified items are insurmountable issues, but there are more issues to work through at the start than with the top-ranked submittal, and this proposal has a high subsidy request. Selection of this proposal is largely dependent on if Council prefers a stand-alone, above-grade parking garage as part of a Lot 12 project.

### **Summary of Related/PAHC Submittal – Highly Ranked**

Like Eden's and MidPen's submittal, the Related/PAHC submittal is highly ranked. Below is an image of the proposal's design concept and another of the site plan, followed by a summary of the proposal's key components with additional detail in Attachment 6.

**Image 7. Related/PAHC Lot 12 Proposal – Design Concept**





**Image 8. Related/PAHC Lot 12 Proposal – Site Plan**

### Summary of Key Components of Related/PAHC Lot 12 Proposal

- **Residential:** Related/PAHC's proposal included three different affordable housing and financing scenarios, which included a range of household types that could provide up to 40 units of permanent supportive housing that would be eligible for Measure A funding:
  - Scenario 1: 120 units; 100 percent affordable between 30 percent and 80 percent AMI; weighted average AMI of 49.1 percent.
  - Scenario 2: 120 units; 100 percent affordable between 30 percent and 80 percent AMI; weighted average AMI of 45.0 percent.
  - Scenario 3: 120 units; 100 percent affordable between 30 percent and 100 percent AMI (outside the range of the RFP); weighted average AMI of 59.0 percent.

The development team submitted three scenarios to demonstrate that there are several ways to approach the Lot 12 development and that the team has the ability to execute the project in any number of ways. Related/PAHC did articulate that Scenario 1 is their preferred scenario, and staff notes that Scenario 3 includes units above the 80 percent AMI level stipulated in the RFP and by the Council.

- **Parking:** All three scenarios share the same design and site plan, which means that all three scenarios fully replace all 160 public parking spaces on-site and include 85 residential parking spaces and five nonresidential parking spaces, for a total of 245 parking spaces. All of the parking spaces are below-grade or at-grade

with no parking spaces visible from the public right-of-way along Mercy Street, Bryant Street, or California Street.

- **Nonresidential use:** The submittal proposes up to 10,000 square feet of nonresidential uses at the corner of California Street and Bryant Street. The development team has had initial discussions with the Community School of Music and Arts, CSA, and Ada's Café, which is a commercial social enterprise that began as a vocational education program for students. All three organizations have expressed initial interest in occupying space in a Lot 12 project.
- **Design:** The submittal tied for the highest score for design. The proposal has a modern design with a good site plan, incorporating various opportunities for placemaking along the "garden muse" and especially at the corner of California Street and Bryant Street. Building heights range from three to five stories with effective transitions from the adjacent residential neighborhood.
- **Project cost:** In all three scenarios, the estimated project cost is approximately \$109 million with the residential portion comprising approximately \$97 million of the total, or \$809,000/unit. This is the highest estimated cost of all of the proposals. It is possible that this cost may be partially attributable to the novel use of an upfront ground lease payment for the land, but staff would need to learn more. If Council selects Related/PAHC as the preferred development team, the City team would follow up further regarding the basis for the project cost estimates and the proposed ground lease structure.
- **Subsidy request:** The proposal requests a \$2.6 million affordable housing subsidy, a \$1.7 million nonresidential subsidy, and no subsidy for the replacement parking, for a total subsidy request of \$4.3 million for Scenarios 1 and 2. This is a low subsidy request, which is impressive given that the proposal represents the highest development cost out of the submittals (Scenario 3 includes units above the 80 percent AMI maximum as specified in the RFP, which increases the overall subsidy request to \$12.5 million). The financing scenarios and associated subsidy request includes an upfront ground lease payment that could be reinvested back into the project by the City, which Related/PAHC indicated could help lower the City's contribution into the project. If Council selects Related/PAHC as the preferred development team, the City team recommends either Scenario 1 or 2. The City would need to better understand their financing scenarios, including their innovative ground lease payment approach, as well as how realistic the low subsidy request is.

- **Summary:** Related/PAHC has submitted a highly ranked proposal with high-quality design concepts. The proposal includes different financing scenarios with an innovative ground lease approach, though the City team did need to spend more time reviewing the financing strategies as certain components lacked clarity. The Related/PAHC development team represents Statewide development expertise that is well-resourced combined with affordable housing expertise in Mountain View. If selected, the proposal has a strong starting point from a design perspective. From the financing perspective, there is the likelihood that a reasonable financing strategy can be identified that minimizes the City's subsidy amount, whether or not there is ultimately a ground lease payment as part of the project, given the resourcefulness and financial wherewithal of the development team.

### **Not Recommended for Consideration**

Affirmed is based in San Diego, California but has a growing presence in Northern California. The City team recognizes that the firm is an accomplished, well-regarded developer of affordable housing and appreciates Affirmed's participation in the process. The team's submittal is not recommended for further consideration for the following reasons:

- The team's submittal lacked sufficient information on key items that were stipulated as requirements in the Lot 12 RFP. This prevented the City team from being able to adequately determine the quality of the proposal. For example, the submittal included a site plan and massing diagrams, but, unlike the four recommended submittals, it did not include any architectural details. The development team articulated that not including detail was intentional because it would want to work with the City to design Lot 12 from the outset. However, the Lot 12 RFP required respondents to build "on what was submitted for the Lot 12 RFQ" and provide "enhanced description/detail of architectural style, design, development quality," and this was not included in Affirmed's RFP submittal.
- Similarly, the financing strategy lacked certain information that was required by the RFP, and the information that was provided lacked necessary clarity. As mentioned, Lot 12 is a complex project from both a financing and design perspective, and it has been reinforced throughout this process that the importance of clear, delineated information was necessary for the City team to evaluate the submittals. For example, Affirmed's submittal included the lowest total development cost of the five submittals, but it did not clearly separate the residential cost portion from the total cost. This made it challenging to determine, for example, whether some of the replacement parking cost was included as part

of the affordable housing cost. In turn, this made it difficult to determine the appropriateness of Affirmed's request for affordable housing subsidy from the City, which can only be used for affordable housing and not for the replacement parking.

- Although a lower development cost is generally desirable, Affirmed's estimate of the total development cost is significantly lower than any of the other four submittals and much lower than the estimates the City team has recently experienced for residential development. For example, the City team understands that the cost of residential development now typically ranges between \$700,000/unit and \$750,000/unit. However, the City team estimates that Affirmed's per unit residential cost may be \$500,000 or less. There is a concern that this estimate is unrealistic and could ultimately lead to a much higher subsidy gap than the \$9.5 million affordable housing subsidy requested.

### **Next Steps**

After Council selects the preferred development team, the City and developer will enter into an ERN Agreement, begin the 90-day negotiation period, and develop the ground lease and disposition and development agreement (DDA). It is anticipated that both the ground lease and DDA will be considered by the Council in fall 2020. As stated in the RFP, the selected developer shall submit a good-faith deposit of \$50,000 to offset costs associated with developing the ground lease/DDA prior to entering into the ERN Agreement with the City. Should the process take longer than 90 days, a 60-day extension may be considered if there is forward progress, and an additional \$25,000 good-faith deposit would be required. These terms were included in the RFP, and each of the recommended development teams have already agreed to these terms as part of their submittals.

After the execution of the ground lease and DDA, the selected team will submit a formal planning application, currently targeted for the end of 2020. It is estimated that the project would be heard by Council in early 2022, the building permit process completed by mid-2023, and the project completed by fall 2025.

### **FISCAL IMPACT**

The fiscal impact will depend upon who Council selects as the preferred development team as there is a wide range of subsidy requests (\$2.5 million to \$32.1 million) as shown in Table 1 above. Affordable housing subsidies will come from the City's affordable housing funds, and it is recommended that Council also adopt a Resolution Reserving \$1,000,000 From the Low- and Moderate-Income Housing Asset Fund to



Assist in the Development of Affordable Housing on Lot 12 (Attachment 1) as part of this Council item. Reserving the funds prior to the end of this fiscal year will allow the City to retain the funds and invest it toward affordable housing, while not reserving the funds would result in the funds having to be returned to the State.

Additionally, if the selected developer team requests a parking subsidy, and the Council grants the subsidy request, that subsidy may come from the City's Parking District funds subject to availability. If the selected developer team requests a subsidy for the nonresidential use, and the Council grants the subsidy request, a funding source would need to be determined.

Ultimately, the amount and source of funding for any City subsidy requested by the selected development team will be determined during the ERN process.

## **CONCLUSION**

It is recommended that Council:

1. Select the preferred development team for the Lot 12 residential/mixed-use development.
2. Authorize the City Manager, or her designee, to execute an Exclusive Right to Negotiate Agreement with the selected development team and commence the negotiation process for development of Lot 12.
3. Authorize the City Manager, or her designee, to execute an amendment to the Exclusive Right to Negotiate Agreement to extend the term for an additional 60 days if negotiations are not complete but are progressing.
4. Adopt a Resolution Reserving \$1,000,000 from the Low- and Moderate-Income Housing Asset Fund to Assist in the Development of Affordable Housing on Lot 12 (Attachment 1).

While all five respondents are highly regarded, staff recommends selection of one of the top four teams, with EAH as the top-ranked submittal, followed by Eden, MidPen, and Related/PAHC tied as highly ranked submittals.

## **ALTERNATIVES**

1. Do not select a preferred development team.
2. Provide other direction.

## **PUBLIC NOTICING**

Agenda posting and e-mail notification to interested parties who have registered to receive information regarding Lot 12.

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- Attachments:
1. Resolution
  2. Lot 12 Request for Proposals
  3. EAH Lot 12 Proposal Summary
  4. Eden Lot 12 Proposal Summary
  5. MidPen Lot 12 Proposal Summary
  6. Related/PAHC Lot 12 Proposal Summary