



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Leslye Krutko
Director of Housing

SUBJECT: SEE BELOW

DATE: August 7, 2008

Approved

Date

COUNCIL DISTRICT: 3

SNI AREA: None

**SUBJECT: AUTHORITY TO APPROVE AN ACQUISITION AND
PREDEVELOPMENT FUNDING COMMITMENT FOR THE AIRPORT
PARKWAY APARTMENTS PROJECT LOCATED AT 40 AND 50
AIRPORT PARKWAY**

RECOMMENDATION

It is recommended that the City Council adopt a resolution approving an acquisition and predevelopment funding commitment of up to \$11,400,000 to BRIDGE Housing Corporation (BRIDGE), or its designated affiliate, for the 200-unit Airport Parkway Apartments project located at 40 and 50 Airport Parkway which will include units for residents at extremely low-income (ELI), very low-income (VLI), and low-income (LI) levels.

OUTCOME

Approval of the recommended action will help to enable BRIDGE to purchase the site, which is fully entitled for up to 528 housing units and a 1.25-acre park, and to ultimately provide up to 400 multifamily rental units, including up to 200 which will be restricted affordable units. Approval of these recommendations at the August 26, 2008 meeting is critical to enable BRIDGE to meet the seller's imminent deadlines for large purchase deposits becoming non-refundable on September 5, 2008.

BACKGROUND

BRIDGE Housing Corporation, a nonprofit housing developer based in San Francisco, has applied to the Housing Department for acquisition financing for Airport Towers. This site is for sale by Foster Airport Parkway, L.P., which has obtained Planned Development Zoning and a Planned Development Permit to construct up to 528 stacked flat units in two towers on a common podium.

Project Description

The subject site is located at 40 and 50 Airport Parkway in the North San José area near Old Bayshore Highway. The 6.08-acre site possesses PD Zoning and a PD permit that allow construction of up to 528 units in two stacked flat towers of up to 220 feet each that were designed for the for-sale market.

BRIDGE plans to build approximately 400 units on the site—a lower number than what is entitled so that the construction type can remain Type V, wood-frame construction over subterranean and above-grade podium parking. Type V construction is less expensive than Type I (steel-frame) construction as the current design would necessitate, and so results in a lower subsidy request from the City, which Housing staff supports. The overall design scheme would remain consistent with the design as it is currently entitled, including a modern building envelope, and BRIDGE plans to retain as many of the planning and site design concepts as possible.

This request is for \$3,300,000 in predevelopment costs and \$8,100,000 in acquisition costs for a project that will provide up to 200 affordable rental units. The other approximately 200 rental units that would be developed on the site would not carry income restrictions and would have market rate rents. The current proposed mix for the overall project—approximately 50% restricted affordable units and 50% unrestricted units—is very preliminary and is subject to change. Regardless of the final number of affordable units, there will be units affordable to ELI, VLI and LI households. The location of the restricted affordable units within the buildings is yet to be determined. Bedroom sizes will range from studios to three-bedroom units in a mix to be finalized during the acquisition period, in conjunction with finalization of the construction and permanent financial structures.

The site is located convenient to amenities that will make it suitable for a family rental project. It is a qualified Transit Oriented Development site within the North San José Vision Plan and has excellent access to two VTA light rail stops within walking distance. Several grocery stores, including Costco, are within two miles of the site, while several drug stores are two to three miles from the site. An elementary school is less than one mile from the project. While these distances are not walking distance, the presence of light rail increases residents' access to amenities throughout the City. As several thousand residential units are in or through the entitlements process for North San José, more commercial businesses are expected to locate in the area over the next few years as residential units start to come on line.

Land for a 1.25-acre park on the site is to be dedicated as required by the PD Permit. The project also plans to incorporate many green building features in order to be competitive for the City's funds and for funding from the State.

Sponsor

BRIDGE is a very experienced affordable housing developer, having developed more than 13,000 affordable homes for more than 35,000 Californians in more than 100 communities since its founding in 1983. BRIDGE employs more than 200 professionals, many of whom work for its property management affiliate, BRIDGE Property Management, which oversees more than 7,000 rental and condominium homes.

Project Feasibility

This request is for acquisition and predevelopment funding only. As such, the Housing Department's Notice of Funding Availability scoring system is yet not applicable, although Staff has evaluated basic project feasibility of different possible scenarios. At the proposed acquisition price, Staff believes that an affordable housing project will be financially feasible at this site. Staff will continue to work with BRIDGE on overall project feasibility during the acquisition period. During that time, the proposed project will be formally evaluated against the NOFA framework and Staff will then return to the City Council with a request for construction/permanent financing.

Closing of the City's acquisition/predevelopment loan will be subject to the receipt of a third-party appraisal confirming that the purchase price is at or below the value of the property. In addition to the City's funding, BRIDGE plans to apply for \$15.6 million in acquisition and predevelopment loans from a proprietary BRIDGE/CalPERS fund. As these requests both include predevelopment funds in addition to acquisition funds, there is a risk that the value of the property will be less than the total amount of loans secured by the property. However, Staff will work diligently with BRIDGE to secure additional collateral and/or otherwise minimize the City's risk of partial repayment in case the project does not materialize as planned.

In committing early funds for development, much of the underwriting risk analysis is whether the developer has the ability to complete the project successfully. BRIDGE is nationally-recognized, very capable affordable housing developer with a track record of working closely with the Housing Department to together achieve the City's policy objectives. In April 2008, BRIDGE was named one of the top 10 largest affordable housing developers in the U.S. by *Affordable Housing Finance Magazine*, including both for-profit and nonprofit developers. BRIDGE has the capacity and experience to propose a feasible project that meets the City's goals for this area and for its overall production.

The City's taking action to fund affordable housing projects in North San José is a key strategy in our obligation to provide affordable units as North San José grows. This Redevelopment Project Area is subject to State Redevelopment Law and the City's current Inclusionary Housing policy. There is therefore an obligation for residential developments in North San José to provide 20% of units at affordable levels, or to otherwise satisfy the obligation through options provided in our Policy such as providing stand-alone affordable projects. Of the 8,000 units in the first phase of North San José's development, there is an obligation to produce 1,600 affordable housing units.

If this request is approved, the City will record initial affordability restrictions on the property at 120% of Area Median Income, in conformance with State Redevelopment Law, at the close of the City's acquisition/predevelopment loan. The City will also record a Deed of Trust on the site to secure its obligation. In conjunction with the finalization of the project's financial structure and Staff's return to the City Council to request a construction/permanent financing commitment, the City will amend and rerecord deeper, more specific affordability restrictions on the residential parcel(s) in accordance with the project's income targeting.

In accordance with State Redevelopment Law, no 20% redevelopment funds will be used for the parkland purchase, and the City's funds will only be used for that proportion of the site that will be restricted for low-income households. The City will also ensure that BRIDGE fulfills all relocation obligations, if any, for current commercial tenants on the site.

More specific business terms for the loan will be approved by the Director of Housing through the City's Delegation of Authority ordinance in Chapter 5.06 of the San José Municipal Code.

EVALUATION AND FOLLOW-UP

The Housing Department posts bi-monthly reports on the status of its subsidized projects to its website, www.sjhousing.org. If approved, the Airport Parkway Apartments project would be included in these reports. A subsequent request for construction and permanent financing will also be submitted for the City Council's approval which would further define the proposed project.

POLICY ALTERNATIVES

To arrive at this proposal, Staff considered the following options:

Alternative #1: Deny the requested funding commitment.

Pros: The funds being requested could be used for other affordable housing projects and programs.

Cons: The proposed funding commitment complies with the Department's funding priorities and has been judged initially financially feasible. It is extremely important that some affordable housing units be integrated into future housing development in the North San José area. There is continued strong demand for ELI and VLI housing close to transit. The per-unit cost for the deep level of affordability that BRIDGE proposes is lower than usual, as it is offset by some market-rate rents in the project. Finally, BRIDGE is a strong and financially viable developer that is able to negotiate under competitive conditions for parcels in North San José.

Reason for not recommending: The proposed project will help to meet the demand for housing that is affordable to ELI and VLI households and will help the City to promote economic integration within North San José.

PUBLIC OUTREACH/INTEREST

- ✓ **Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater.
- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City.
- Criterion 3:** Consideration of proposed changes to service delivery, programs, or staffing that may have impacts to community services and have been identified by staff, the Board or Council, or a community group that requires special outreach.

This item meets Criterion 1: Requires Council action on the use of public funds equal to \$1 million or greater. This Memorandum will be posted to the City’s website for the August 26, 2008, Council Agenda. The developer will also work with the Councilmember’s office on an outreach plan to bring the neighborhood up to date regarding the project’s switch from for-sale to rental.

COORDINATION

This report has been coordinated between the Housing Department and the Office of the City Attorney.

FISCAL/POLICY ALIGNMENT

This expenditure is consistent with the Housing Department’s *Five-Year Investment Plan for Fiscal Years 2003/04-2008/09* in increasing the supply of affordable housing, and with the City’s *Consolidated Plan, 2008-09* in providing households units for very low- and extremely low-income households.

COST SUMMARY/IMPLICATIONS

1. COST OF PROJECT:

<u>USES</u>	<u>AMOUNT</u>
Site Acquisition and Holding Costs	\$20,439,718
Predevelopment Costs	<u>\$6,589,500</u>
TOTAL	\$27,029,218

2. COST ELEMENTS OF CITY LOAN AMOUNT:

<u>USES</u>	<u>AMOUNT</u>
Site Acquisition and Holding Costs	\$8,103,374
Predevelopment Costs	<u>\$6,294,750</u>
TOTAL	\$11,398,124

3. SOURCE OF FUNDING: Fund 443—Low- and Moderate-Income Fund

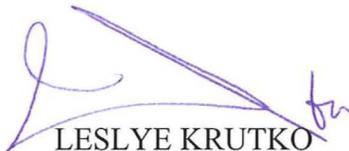
4. FISCAL IMPACT: No ongoing fiscal impact.

BUDGET REFERENCE

Fund #	Appn. #	Appn. Name	Total Appn.	Amt. For Contract	2007-2008 Adopted Operating Budget (Page)	Last Budget Action (Date, Ord. No.)
443	0070	Loans, Grants and Site Acquisition	\$90,000,000	\$11,400,000	XI-53	6/24/2008

CEQA

CEQA: Resolution No. 72768 and Addendum thereto, PDC06-130.


LESLYE KRUTKO
Director of Housing

For questions, please contact Leslye Krutko, Director of Housing at 408-535-3851.

Attachment



HONORABLE MAYOR AND CITY COUNCIL

Subject: Acquisition Funding for Airport Parkway Apartments

August 7, 2008

Page 7

ATTACHMENT 1
Potential Project Timeline

<u>Event</u>	<u>Potential Timing</u>
Site acquisition	October 2008
Applications for State funding	Early through late 2009
Close of construction loans	November 2009
Construction start	November 2009
Construction completion	February 2011
Complete occupancy	December 2011

ATTACHMENT 2
Subject Site Map
Airport Parkway Apartments

