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December 13, 2021

Mayor & City Council
City of San Jose
200 East Santa Clara Street, 18th Floor
San Jose, CA 95113

Re: General Plan 4-Year Review - Commercial Requirements for Affordable Housing Projects (Item 10.4 on the Dec.14 City Council Meeting Agenda)

Honorable Mayor & City Councilmembers,

To solve our growing homelessness crisis, we must find ways to speed up the production of more deeply affordable housing in our community. And to do that, we must eliminate barriers to affordable housing - including the commercial space requirements imposed on 100% affordable housing developments.

That's why **we urge the City Council to adopt BOTH the memo authored by Councilmembers Davis, Arenas and Jimenez, as well as the memo authored by Councilmembers Cohen and Foley.** Together, these two memos will implement the General Plan Task Force's overwhelming recommendation to eliminate commercial space requirements for 100% affordable housing developments.

While well-intentioned, the current commercial space requirements are significantly hampering the production of desperately-needed affordable housing in our community. Integrating commercial space into affordable housing developments not only adds millions of dollars in additional development costs, it also reduces the number of affordable apartments that can be built on-site. And because public affordable housing funds cannot be used to pay for commercial space, these requirements create a unique financial burden on prospective affordable housing developments.

In many cases, these requirements have made prospective developments financially infeasible. And even for those who find a way to make a project pencil-out, we end up with significantly fewer affordable apartments at a higher overall cost per unit.

It's also important to remember that these proposals would only exempt 100% affordable housing developments (which is precisely the type of housing we most desperately need and face the greatest development challenges), and that the City's commercial space requirements would remain applicable to market-rate and mixed-income developments - which comprise the vast majority of new housing development in our community.

This is one of the most impactful actions that the City Council can take today to accelerate affordable housing production in our city and achieve the City's ambitious goal of developing 10,000 new deed-restricted affordable housing units.

Please approve the Davis/Arenas/Jimenez and Cohen/Foley memos.

Sincerely,



Jennifer Loving



December 13, 2021

Mayor & City Council
City of San Jose
200 East Santa Clara Street, 18th Floor
San Jose, CA 95113

Re: December 14, 2021 Council Item - General Plan 4-Year Review - Commercial Space Requirements for 100% Affordable Housing Developments

Honorable Mayor and City Councilmembers,

We are pleased to see that the City Council will consider changes to the commercial space requirements that are placed on affordable housing developments and that several City Council members have authored memorandums of support. We are fully supportive of the both the Davis/Arenas/Jimenez memo and the Foley/Mahan memo, attached herein. While the current rules were created with the well-placed intention to create active street fronts, they are serving as a serious impediment to construction of desperately needed new affordable housing development.

Allied Housing currently has four 100% affordable housing projects in various stages of development in the city of San Jose right now. All of them have at least half of the units reserved for people experiencing homelessness.

Requiring affordable housing developments to integrate commercial space, as well as the parking needed to serve this use, adds millions of dollars to the total development cost of a project. Furthermore, public sources of affordable housing funds cannot be used to cover these types of costs - creating an added financial burden that threatens the financial feasibility of new developments.

For example, our Casa de Novo project, located at 2188 The Alameda in San Jose, was delayed for several years in large part due to the financial infeasibility of having to include a large commercial component as part of the development. We were looking to have to fund raise for millions of dollars to make the project work as there were no sources to cover the commercial component and the project could not support enough commercial debt to cover the cost given the market rate of rent and underwriting standards of lenders. Once the Planning Department was able to determine that the commercial component could be eliminated through the use of streamlining legislation, the project immediately moved forward and is actively now being developed.



Further, we have had to reject considering multiple potential project sites per year that otherwise would have been great as new affordable housing developments due to a commercial component being required that made the project infeasible to consider. These were properties that had neighboring high density residential uses and were in close proximity to neighborhood amenities such as transit, grocery stores, pharmacies, libraries and parks. So it is not just a matter of a commercial component making a potential affordable housing project more expensive per unit, it is often making in completely infeasible due to the funding limitations on affordable housing.

That's why we urge the Council to adopt the GP Task Force's recommendation to eliminate the commercial space requirements for all new 100% affordable housing developments in accordance with the support memos from Council Members Davis, Arenas, Jimenez, Foley and Mahan. To put it simply, the current commercial space requirements are preventing more affordable housing projects from moving forward. Making this small, but critical, change will eliminate a major barrier to new affordable housing developments and bring us another step closer to meeting the dire need for more affordable housing in our community.

Thank you for your careful consideration of this important matter.

Sincerely,



Jon White
Chief Real Estate Officer

GP 4 Year Review / Commercial Requirement for 100% Affordable Housing Projects (Item 10.4 on 12/14 Agenda)

Carol Perrigo [REDACTED]

Tue 12/14/2021 3:08 PM

To The Office of Mayor Sam Liccardo <TheOfficeofMayorSamLiccardo@anjo.eca.gov> Di trict1 <di trict1@anjo.eca.gov> Di trict2 <Di trict2@anjo.eca.gov> di trict5@anjo.eca.gov <di trict5@anjo.eca.gov> Di trict3 <di trict3@anjo.eca.gov> Di trict4 <Di trict4@anjo.eca.gov> Di trict5 <Di trict5@anjo.eca.gov> Di trict 6 <di trict6@anjo.eca.gov> Di trict7 <Di trict7@anjo.eca.gov> Di trict8 <di trict8@anjo.eca.gov> Di trict9 <di trict9@anjo.eca.gov> Di trict 10 <Di trict10@anjo.eca.gov> City Clerk <city clerk@anjo.eca.gov>
Cc Nevada Merriman [REDACTED] Jan M Lindenthal [REDACTED] Matt Franklin [REDACTED] >

 1 attachments (262 KB)

MidPen Comments to SJ Commercial Reqs 21-1214.docx.pdf;

[External Email]

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December 14, 2021

Dear Honorable Mayor Liccardo and Members of the City Council:

Attached please find MidPen Housing's comments to Item 10.4 on tonight's agenda regarding commercial requirements for affordable housing. Thank you for taking up this matter and for considering our comments.

Thank you-

Carol Perrigo | Executive Administrator
MidPen Housing Corp.
 on behalf of:
Nevada V. Merriman | Director of Policy
MidPen Housing Corp.

She | Her | Hers



NOTE I am currently working remotely from home. MidPen continues to provide essential service at all of our communities to support our residents.

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December 14, 2021

Mayor & City Councilmembers
City of San Jose
200 East Santa Clara Street, 18th Floor
San Jose, CA 95113

Re: December 14, 2021 Council Item 10.4 - General Plan 4-Year Review - Commercial Space Requirements for 100% Affordable Housing Developments

Honorable Mayor and City Councilmembers:

We are pleased to see that the City Council will consider changes to the commercial space requirements that are placed on affordable housing developments. While the current rules were created with the well-placed intention to create active street fronts, they are serving as a serious impediment to construction of desperately needed new affordable housing development.

Moreover, we have reviewed two additional memos on this matter: a memo from Councilmembers Davis, Arenas, and Jimenez and a separate memo from Councilmembers Foley and Mehan. These memos **recommend that the City Council eliminate commercial requirements for 100% affordable housing developments. We support both of these proposals and urge their adoption.**

Requiring affordable housing developments to integrate commercial space, as well as the parking needed to serve this use, can add more than \$1M to the total development cost of a project. Furthermore, local public sources of affordable housing funds cannot be used to cover these types of costs, which forces us to use tax credit equity to fund them. While at first glance, this may seem ideal, in the current competitive environment it puts new developments into a tenuous position and may even make some projects infeasible.


Donner Lofts Apartments is a mixed-use development comprised of 102 studios and 1-bedrooms located at 158 E. St. John Street in San José. The development also contained 2,684 SF of commercial space. In 2016 the cost for this constructing a cold, dark shell (not including tenant improvements, which could easily double the cost) was \$658,977.

Another, more recent example in Redwood City is MidPen's Arroyo Green development, located at 707 Bradford St. The development also contains 8,300 SF of commercial space that was required to be built out for a childcare operator. The cost for this commercial space and tenant improvements was \$2,987,951.

You may know that the current scarcity of tax-exempt bonds has left many [Bay Area projects without the funds needed to complete financing](#) and move into construction. This is because it is more expensive to build in the Bay Area relative to the rest of the State of California, and the current competitive allocation system makes cost a determinative factor in receiving an award. It is for this reason that we support the **GP Task Force's recommendation to eliminate the commercial space requirements for all new 100% affordable housing developments.** It is an unfortunate reality that the current commercial space requirements are preventing more affordable housing projects from moving forward. Making this small, but critical, programmatic change will eliminate a major barrier to new affordable housing developments and bring us another step closer to meeting the dire need for more affordable housing in our community.

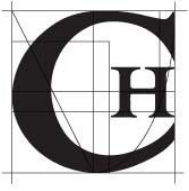
Thank you for your careful consideration of this important matter. If you have any questions, please do not hesitate to call me at (650) 465-9864 or email jlindenthal@midpen-housing.org.

Sincerely,



Jan Lindenthal
Chief Real Estate Officer

cc:
Matthew O. Franklin, President & CEO
Nevada V. Merriman, Director of Policy



CHARITIES HOUSING

October 13, 2021

MEMORANDUM

TO: Whom It May Concern

FROM: Kathy Robinson

RE: Impact of Requirement to include Commercial Square Footage in 100% Affordable Housing Developments

There are four primary impacts associated with the City of San Jose's requirement to include commercial square footage in 100% Affordable Housing Developments. Using the Blossom Hill Road Senior Housing development (BH) as an example, these four impacts are summarized below.

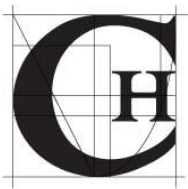
The 147-unit, 100% affordable senior housing development was required to include 16,000 SF of commercial space to replace the 32,000 SF warehouse style furniture store that was on the site. The funding sources to build affordable housing cannot be used to build commercial space. As a result, Charities Housing must fund the design and construction of the commercial space out of its own resources.

1) Financial impact to the developer/owner related to construction of the building space and required parking. To minimize the cost impact, Charities Housing is only building a cold shell for this 16,000 SF space at the onset. The cold shell only includes the exterior walls, and any structural components which are required to support the residential structure above. A concrete floor slab is not included. Fire protection will be installed for building safety prior to an occupancy permit being issued for the residential portion. Yet, even with these adjustments, the cost is substantial.

Commercial space also requires its own set of parking space. The number of spaces is calculated based upon the commercial square footage and the expected use; in the case of Blossom Hill, forty-four (44) spaces are required. Additionally, the commercial parking requirement, impacted the ability to have all of residential parking surface parked. Thirteen (13) residential spaces had to be located under the podium, which is a much more expensive option for providing parking.

Altogether, the soft and hard cost associated with the commercial space is approximately \$2.1 million dollars.

If and when a commercial tenant(s) occupies this space, they will be obligated to build out the balance of the mechanical, electrical, and plumbing systems and any tenant improvements as required by their specific needs. Given that there are vacancies in all four commercial shopping



CHARITIES HOUSING

centers at the nearby intersection of Blossom Hill and Snell, it is not clear when/if this new commercial space will be leased up. It is also likely that Charities Housing will need to provide rent concessions, allowances towards the tenant improvement work as well as paying for brokerage commissions in order to get the space leased.

2) Loss of affordable housing. Providing this 16,000 SF of commercial space resulted ***the loss of at least another 25 affordable housing units*** that could have been included in the development – a huge opportunity cost in a time when affordable housing remains far too scarce in our community.

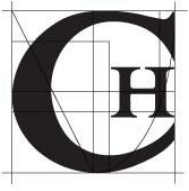
The loss of these 25 units (or ~17% of the development's total unit capacity) not only decrease the number of seniors we can serve, it **INCREASES** the per unit cost at the development. In fact, we estimate that forgoing these units in favor of commercial space drove up the per unit cost by ~\$61,000/per unit.

3) Loss of “opportunity funding” to develop more affordable housing. The funds being used to develop this commercial space come from a reserve established by Charities Housing. This reserve is funded from our annual operational savings over the past fifteen years. The intent of this reserve is to enable Charities Housing to quickly react when new development opportunities arise. The reserve is typically used to place deposits on new affordable housing development sites and pay for upfront due diligence. Charities Housing has even acquired new sites by using the reserve when necessary. The reserve has enabled Charities Housing to create a robust pipeline of new opportunities that will be built out over the next five to ten years, assisting the City in meeting its affordable housing production goals.

Having to contribute the \$2,100,000 described above to pay for the commercial space and parking in the Blossom Hill development, results in the potential loss of several additional new affordable housing opportunities that Charities could initiate. Alternatively, this also places a larger burden on the public funders who without this reserve, would need to be the source for this opportunity funding.

4) Utilization of limited internal resources. As a non-profit mission driven affordable housing developer Charities Housing is also utilizing our limited liquidity to build our internal organizational structure. Allocating this precious working capital and organizational human resource to commercial operations which we have very limited expertise and established systems and process, will distract us from the mission of developing and operating affordable communities. Our Blossom Hill development provides a stark example of how the commercial requirements can have significant detrimental impacts on new developments. But sadly, this is not the worst-case scenario.

In fact, taken together, the four impacts described above could make a prospective affordable housing development completely infeasible – as would the case with our proposed Driftwood Family Apartments.



CHARITIES HOUSING

Making New Affordable Housing Production Infeasible

The Driftwood Family Apartments site is an assemblage of three parcels located at the corner of Driftwood Drive and Winchester Blvd. These sites are in the Winchester Blvd. Urban Village with an Urban Residential designation. This designation requires that *“the existing commercial square footage must be replaced with an equivalent commercial square footage in the new development, at a minimum”*.

The existing commercial square footage on the three parcels totals 15,987 square feet. The preliminary site design indicates the site can accommodate 100 affordable family apartments in a four-story building over parking on the ground floor without any commercial spaces. To create ~16,000 square feet of ground floor commercial space the 75 parking spaces currently planned on the ground floor would need to be relocated to an underground parking garage at a cost of approximately \$2.7 million. In addition, at least 10 affordable units would be lost. The added cost and loss of units, conservatively estimated, will drive up the cost by at least \$40,000 per unit. In addition, Charities Housing will need to come up with at least another \$2.5 million of its own resources to build the commercial space. This development is on hold until the decision on the requirement to include commercial space is resolved.