



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand
Jim Shannon

SUBJECT: SEE BELOW

DATE: August 16, 2021

Approved

Date

8/19/21

COUNCIL DISTRICT: 3

SUBJECT: APPROVAL OF A LOAN COMMITMENT TO ALGARVE APARTMENTS DEVELOPMENT L.P., FOR THE DEVELOPMENT OF THE ALGARVE (THE DAHLIA) DEVELOPMENT, A NEW AFFORDABLE APARTMENT COMMUNITY

RECOMMENDATION

- (a) Adopt a resolution:
- (1) Approving a total commitment of up to \$10,500,000 in Low and Moderate Income Housing Asset Funds (“LMIHAF”) for a Construction-Permanent Loan to Algarve Apartments Development L.P., or an affiliated development entity (“Developer”), for the Algarve (also known as The Dahlia) Development, located at 1135 East Santa Clara Street, San Jose (“Site”), which is being developed to provide 90 affordable, rent restricted apartments, and one unrestricted manager’s home (“Development”);
 - (2) Authorizing the loan terms to allow an increase in the Algarve Development’s rents and income restrictions up to 60% AMI (low income) for new tenants in subsidized units in the event of expiration or termination of Project Based Vouchers, and for all tenants in the event of foreclosure, to the extent the City has determined such increase is needed for the feasibility of the Algarve Development and allowed by other funds;
 - (3) Authorizing the Director of Housing to negotiate and execute loan documents and all other documents, including any amendments thereto, related to City financing for Development;
 - (4) Approving a loan-to-value ratio of greater than 100% for this loan; and
- (b) Adopt the following Appropriation Ordinance amendments in the Low and Moderate Income Housing Asset Fund:
- (1) Decrease the Housing Project Reserve appropriation by \$10,500,000; and
 - (2) Increase the Housing Loans and Grants appropriation to the Housing Department by \$10,500,000.

OUTCOME

Approval of the recommended actions will enable the Developer to assemble financing to build a new affordable development at the site located at 1135 East Santa Clara Street (*See Attachment A – Site Map*). The Algarve Development (“Development”) will provide affordable apartments for a period of at least 55 years following completion, consisting of 47 Extremely Low Income (ELI) apartments, 43 Very Low Income (VLI) apartments, and one unrestricted manager’s apartment, for a total of 91 households in San José.

The Development will serve individuals and families with current maximum annual incomes between 30% and 50% of area median income (“AMI”) at affordable rent in accordance with California Health and Safety Code Section 50053, as may be amended from time to time. Forty-six of the units will be supported by Veterans Affairs Supportive Housing (“VASH”) and Project Based Vouchers (“PBV”) for at least 20 years. In addition to the 10 VASH vouchers already conditionally awarded on June 8, 2021, the developer has applied for a reservation of 36 Section 8 Project-Based Vouchers from the Santa Clara Housing Authority. As funding sources are secured, the planned start date for construction is expected to be June 2022.

Approval of the recommended action will also allow the City Loan for the Development to increase rents and income restrictions (but not more than 60% AMI), if needed to ensure the Development’s continued financial feasibility. The increase will apply to new tenants in subsidized units in the event of expiration or termination of subsidy contracts, and for all tenants in the event of foreclosure.

EXECUTIVE SUMMARY

In response to the \$100 million 2018 Notice of Funding Availability, Reed Community Partners (“RCP”) applied for a funding commitment in the amount of \$10,500,000 to develop 91 apartments for extremely low and very low-income individuals. This development plans to use funds from the City’s Low-and Moderate-Income Housing Asset fund, County of Santa Clara (“County”) Measure A, and Tax-Exempt Multi-Family Housing Revenue Bonds. Approval of this funding commitment will allow the developer to move forward with an application to the California Debt Limit Allocation Committee on September 9, 2021.

BACKGROUND

On August 31, 2018, following the City Council’s direction, the Housing Department issued a \$100 million Notice of Funding Availability (“NOFA”) for the development of affordable housing for extremely low-, very low-, and low-income individuals. The NOFA prioritized developments that provided housing for homeless households, achieved cost effectiveness, and leveraged additional non-City sources of financing.

In response to the NOFA, the Developer submitted a development proposal with a request for a commitment of funding in the amount of up to \$10,500,000 to provide 90 affordable apartments and one manager's unit. Forty-six units will be set aside for permanent supportive housing ("PSH") for individuals and families who have disabling conditions as well as for formerly homeless individuals and families. These units will have 10 VASH and 36 Section 8 project-based vouchers from the Housing Authority of Santa Clara County. Of the 90 supportive apartments, 47 apartments will be available to individuals and families earning 30% AMI and 43 apartments will be available for individuals and families earning 50% AMI. The guidelines stated that the City would allocate funding at \$125,000 per unit, and the Algarve Development was awarded \$115,384 per unit or \$10,500,000. (*See Attachment B - Construction/Permanent Sources for the Development*).

The Developer will also pursue, or has obtained, additional supplemental construction and permanent funding sources for the Algarve Development, including:

- **City of San José Tax-Exempt Multi-Family Housing Revenue Bonds ("City Bonds") and Tax Credits**

The Developer plans to apply for funding in the September 9, 2021 State Tax credit and California Debt Limit Allocation Committee joint application funding round. The Developer will request an allocation of up to \$39,000,000 from the Committee.

- **Measure A Affordable Housing Bond ("Measure A")**

On September 26, 2017, the County issued a NOFA for the Measure A Affordable Housing Bond, a \$950 million general obligation bond that will create new affordable rental and homeowner housing opportunities. On March 10, 2020, the Santa Clara County Board of Supervisors appropriated \$11,500,000 in 2016 Measure A funds for this Development.

ANALYSIS

The proposed project would be a co-developer partnership between Reed Community Partners and Allied Housing. This will be Reed Community Partners' first development in San José. The developer has been working with the City of San José, the County and the Housing Authority to provide more affordable housing to extremely low-income households. This development contributes much needed affordable housing and designed in accordance with the Roosevelt Park Urban Village Plan, as defined in the 2040 San José General Plan. (*See Attachment D - Alignment with Envision San José 2040 General Plan*).

The proposed property development is located at the northwest corner of East Santa Clara Street and North 24th Street in San José, with a lot size approximately 17,594 square feet. The property currently has a small vacant retail building that is approximately 3,000 square feet.

In 2015, prior to being purchased by the Developer, State and County environmental regulators got involved with the Property because of soil contamination from a dry cleaner business who occupied the Property decades ago. The County provided all tenants currently on the Property at that time a notice of dangerous air quality in August 2016. A Corrective Action Plan for the environmental clean-up was approved by the County in August 2019 which required the demolition of all the buildings on-site to complete the soil remediation. The former owners decided not to renew any leases because of the environmental contamination and the tenants moved out of property at end of their leases. The property had no tenants at the time it was purchased by Algarve Apartments Development, LP in April 2020.

The proposed development will be a new eight-story transit oriented mixed-use project with 90 affordable residential apartments with 45,849 square feet of residential rentable space. The apartments units would be available to individuals and families with income levels of 30% and 50% of AMI, comprised of 42 studios, 21 one-bedroom, 27 two-bedroom and one manager's apartment. Direct case management services will be provided for by the County through an approved County-contracted service provider and will be supplemented by additional on-site coordination and support services from Abode Services. Forty-six of the units would be PSH units managed by Abode Services. The property will be managed by John Stewart Company.

All the proposed rental units will feature high quality durable finishes and in-unit laundry. The project has attached surface parking in excess of City requirements. The common amenities include a children's recreation room, bike storage/workshop, and a community room. Inside the community room is a food pantry that will have food available to residents at no cost in partnership with Second Harvest Food Bank. The street-level exterior of the project will feature a large mural which will pay tribute to the deep Portuguese and Mexican heritage of the neighborhood. This public art will help bring some visual interest and identity to the heart of the Roosevelt Park Urban Village.

Construction-Permanent Loan

The Housing Department recommends that City Council approve a Construction-Permanent Loan amount of up to \$10,500,000 from LMIHAF. The City's loan will be structured consistent with its underwriting guidelines and policies and are to be repaid through a share of the development's net cash flow. Final loan terms will be underwritten, negotiated, and determined as the development approaches construction loan closing.

By the authority delegated under section 5.06.335 of the Municipal Code (Authority to negotiate and execute council-approved loans, grants and programs), the Director of Housing will negotiate additional terms and execute documents for these loans in accordance with the City Council's approval, if granted, for this Development.

The County of Santa Clara has issued a predevelopment/acquisition loan for \$5.5 million to take out the initial Housing Trust Silicon Valley ("HTSV") acquisition loan and a portion of the Destination Home Loan. The property will be owned by Santa Clara County and leased to the

developer for construction and operation of the development and other improvements. The City construction-permanent loan will be evidenced by a Deed of Trust recorded against the leasehold interest. *(See Attachment B - Construction/Permanent Sources for the Development).*

Loan-to-Value Ratio

The City's Loan to Value ("LTV") policy requires that the combined LTV ratio (all the loans divided by the appraised value of the property not exceed 100%). While the appraised value of the property is not known at this time, the appraisal that will be prepared for the senior lender before construction closing is expected to result in a combined LTV that significantly exceeds 100%, which is the City's LTV policy threshold.

The LTV policy was intended to reduce the City's risk of loss associated with its loans; however, the City now builds more deeply affordable projects than it did in the 1990's and early 2000's. The deeper affordability of a project increases the need for public subsidies, while decreasing the project's market value, leading to an increased LTV. An elevated LTV above 100% is not uncommon for public lenders in the affordable housing industry. Projects that have a high LTV are considered acceptable by City staff, if the project's projected operating income is expected to be at least 1.15 times the required permanent mortgage payment. This is a common standard for assessing the financial feasibility of affordable housing developments. This project's 20-year cash flow projects Debt Service Coverage Ratio (DSCR) of 1.17 and over by year two onwards.

Affordability Unit Mix/Area Median Income Levels

The Developer has proposed the following unit mix: 47 apartments restricted to Extremely Low-Income households at 30% of AMI, 43 restricted to Very Low-Income households at 50% of AMI, for a total of 90 restricted homes, and one unrestricted manager home. The breakdown of affordability level and bedroom size is included in Table 1 below. These affordability requirements shall be evidenced by a 55-year affordability restriction recorded against the Developer's leasehold interest in the property per Community Redevelopment Law requirements for projects receiving LMIHAF funds.

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Table 1 – Affordability Restriction and Bedroom Breakdown

UNIT SIZE	UP TO 30% AMI			UP TO 50% AMI			Manager's Unit	TOTAL
	Units	Max Income **	Rent Limits	Units	Max Income **	Rent Limits		
Studio	36	\$34,800	\$794	6	\$58,000	\$1,323		42
1-BD	5	\$39,800	\$850	16	\$66,300	\$1,418		21
2-BD	6	\$44,750	\$1,021	21	\$74,600	\$1,702		27
Manager's Unit	N/A	N/A	N/A	N/A	N/A	N/A	1	1 *
Total	47			43			1	91

* Unrestricted managers' units

**Maximum incomes limits are based upon TCAC occupancy guidelines of 1.5 persons per bedroom.

Voucher Mix:

Unit size and Affordability	PBV	VASH	Total
	30% AMI	50% AMI	
Studios	35		35
1-BD		10	10
2-BD	1		1
Total	36	10	46

In addition to the 10 VASH vouchers that were conditionally awarded on June 8, 2021, the developer has applied for a reservation of 36 Section 8 Project- Based Vouchers (PBVs) from the Santa Clara Housing Authority.

Next Steps

If the Developer can obtain all necessary funding commitments for the Development, they will apply for a Low-Income Housing Tax-Exempt Bond Allocation in September 9, 2021. If they are awarded a bond allocation in this round (December 8, 2021), construction is estimated to initiate by June of 2022 and conclude in October of 2023. (*See Attachment C - Anticipated Development Timeline*).

EVALUATION AND FOLLOW-UP

The Housing Department produces quarterly Information Memoranda regarding the use of the Director of Housing's Delegation of Authority under the Municipal Code; therefore, final loan business terms would be summarized in those Memos. In addition, the Housing Department posts periodic reports on the status of its affordable properties undergoing rehabilitation or construction to its website, www.sjhousing.org. If the recommended actions are approved and Algarve Development successfully closes construction financing, it would be included in these Quarterly Production Reports.

CLIMATE SMART SAN JOSE

The recommendation in this memo aligns with one or more of Climate Smart San José energy, water, or mobility goals; as indicated below by the developer.

- **Dense affordable housing:** The proposed project provides 90 units of urgently needed affordable housing on a centrally located yet underutilized urban site. Building dense, livable, long-lasting, affordable housing close to services and transit is an essential part of creating a sustainable city.
- **Tight building envelope:** The proposed envelope will be tight, with careful detailing around openings and penetrations. High-quality insulated and thermally broken windows and storefront units are specified for the ground floor spaces and upper-level units. Projecting elements on the façade provide for passive shading and a combination of operable windows and windows with integral passive vents will minimize reliance on mechanical ventilation and cooling. The building envelope utilizes continuous exterior insulation in addition to wall cavity insulation.
- **All-electric building:** The proposed project will be all-electric and solar-ready.
- **Unitized HVAC:** Rather than relying on centralized ducting and distribution, the proposed project employs a unitized concept. Each apartment will have its own exterior heat pump unit, eliminating the need for centralized ducting and large centralized mechanical plant. The amenity and support spaces at the ground floor utilize the same mechanical systems concept. The elimination of ductwork translates into a huge reduction in material use – there are no suspended ceilings above the ground floor. Smart thermostats will increase resident control and reduce overall building energy use.
- **Walkable neighborhoods:** The project will provide dense housing directly on a major transit corridor. VTA bus service (lines 22, 23, and 522) stop at the building's front door. The proposed Alum Rock BART station will be within 2000' of the project site.

Roosevelt Park, Roosevelt Youth Center, and San José High School are all within easy walking distance.

- **Charging stations:** Due to its siting in a transit-rich environment, on-site parking has been reduced to a minimum. The proposed project contains 12 vehicle spaces, of which two are provided with EV charging pedestals and the remainder are EV-ready.
- **Bike storage:** The proposed ground floor contains secure storage for 48 bicycles and includes a bicycle repair and service station. Bicycle room access is directly off both entrances to the main lobby.
- **Roofing:** A light-colored single-ply TPO membrane is proposed for the roof to reduce urban heat island effect.
- **Stormwater treatment:** The existing site is currently 100% covered in hardscape. Two proposed on-site flow-through planters will capture and manage all building and site runoff.
- **Landscaping:** Proposed landscaped areas will utilize low- and very-low water use and native plants.

POLICY ALTERNATIVES

The Housing Department considered the following alternative before making these recommendations for this affordable housing development.

Alternative #1: *The City Council could deny the requested funding commitment.*

Pros: The requested funds could be used for other affordable housing developments.

Cons: The City is facing a tremendous need for affordable housing. Locating suitable sites near transit and services, at a reasonable price, is difficult, making it more challenging for the City to help create housing options for very low and low-income individuals.

Reason for not recommending: The Algarve Development is a viable opportunity to serve residents from a wide range of income levels, of whom may potentially include downtown workers.

PUBLIC OUTREACH

The developer implemented a comprehensive outreach plan to engage with the community through a series of 15 outreach meetings held January to December of 2019 and first quarter of 2020 to provide information and answer questions with community members. The meetings covered a range of items from the new developments' architecture and design and permanent supportive housing to addressing neighbors' traffic concerns. Last month, an update on the project's status was provided to the neighborhood association and other community leaders.

Additionally, the community outreach plan involved meeting with representatives from Abode Services, Destination Home, CommUniverCity, Five Wounds Brookwood Terrace, Roosevelt Neighborhood Association, and Silicon Valley at Home where the plans were reviewed, and additional input collected.

COORDINATION

Preparation of this report has been coordinated with the City Attorney's Office.

COMMISSION RECOMMENDATION/INPUT

This item was not heard by the Housing and Community Development Commission, as approvals of affordable development financing do not fall under the functions, powers and duties of the Commission delineated in Section 2.08.2840 of the San José Municipal Code.

FISCAL/POLICY ALIGNMENT

This action is consistent with the City's *Consolidated Plan 2020-2025*, adopted by City Council on August 11, 2020, to provide homes for very low- and extremely low-income households; and with Goal H-2 of the City's *Housing Element 2014-2023*, adopted by City Council on January 27, 2015, to "increase, preserve, and improve San José's affordable housing stock" and the *Community Plan to End Homelessness 2020-2025*, endorsed by the City Council on August 25, 2020, in that it provides supportive housing for formerly homeless residents. The City Council will be considering the Affordable Housing Siting Policy in the coming weeks. The Algarve Development applied under the 2018 Notice of Funding Availability, during a period of time when the current Dispersion Policy was suspended. This development complied with the requirements included in the Notice of Funding Availability at the time of application.

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COST SUMMARY/IMPLICATIONS

The recommended actions in the memorandum will provide up to \$10,500,000 for a construction loan to Algarve Apartments Development L.P. for the Algarve (also known as The Dahlia) Development, located at 1135 East Santa Clara Street, San Jose. The development will provide 90 affordable, rent restricted apartments, and one unrestricted manager’s home. The loan will be funded by the Housing Loans and Grants appropriation in the Low and Moderate Income Housing Asset Fund. There is no ongoing fiscal impact as a result of this action.

BUDGET REFERENCE

The table below identifies fund and the appropriations proposed to fund the actions recommended as part of this memorandum.


Fund #	Appn #	Appn. Name	Total Appn	Recom. Budget Action	2021-2022 Proposed Operating Budget Page*	Last Budget Action (Date, Ord. No.)
346	8437	Housing Project Reserve	\$55,000,000	(\$10,500,000)	X-61	06/22/21 Ord. 30621
346	0070	Housing Loans and Grants	\$63,081,832	\$10,500,000	X-60	06/22/21 Ord. 30621

*The 2021-2022 Adopted Operating Budget was approved on June 15, 2021 and adopted on June 22, 2021 by the City Council.

CEQA

Exempt per Public Resources Code Section 21080(b)(1) and CEQA Guidelines Section 15369, Ministerial Project pursuant to Government Code Section 65913.4, File No. ER20-109.

/s/
JACKY MORALES-FERRAND
Director, Housing Department


JIM SHANNON
Budget Director

For questions, please contact Rachel VanderVeen, Deputy Director, at (408) 535-8231.

- Attachment A: Site Map
- Attachment B: Construction Sources
- Attachment C: Anticipated Development Timeline
- Attachment D: Alignment with Envision San José 2040 General Plan

**ATTACHMENT A
THE ALGARVE APARTMENTS
SITE MAP**



**ATTACHMENT B
THE ALGARVE APARTMENTS**

CONSTRUCTION SOURCES

SOURCE	AMOUNT
Tax Exempt Perm Bond/Construction Lender	\$32,532,700
City of San José	\$10,500,000
County of Santa Clara	\$11,500,000
Tax Credit Equity	\$5,728,265
Deferred Developer Fee	\$6,044,145
Total Sources	\$66,305,109

PERMANENT SOURCES

SOURCE	AMOUNT
Tax Exempt Perm Bond	\$10,414,964
City of San José	\$10,500,000
County of Santa Clara	\$11,500,000
Deferred Developer Fee	\$6,044,145
Tax Credit Equity	\$27,846,000
Total Sources	\$66,305,109

ATTACHMENT C

The Algarve Apartments Anticipated Development Timeline

Apply for CDLAC/TCAC	September 2021
Bond Allocation Award	December 2021
Close Financing	June 2022
Start Construction	June 2022
Complete Construction	October 2023

ATTACHMENT D
Algarve Apartments
Alignment with Envision San José 2040 General Plan

The proposed project aligns with numerous goals outlined in the 2040 General Plan related to the production of affordable housing. The project was designed in accordance with the Roosevelt Park Urban Village Plan, as defined in the 2040 General Plan.

These include:

Goal H-2 Affordable Housing Preserve and improve San José’s existing affordable housing stock and increase its supply such that 15% or more of the new housing stock developed is affordable to low, very low and extremely low income households.

1. Policies – Affordable Housing H-2.1 Facilitate the production of extremely low-, very low-, low-, and moderate income housing by maximizing use of appropriate policies and financial resources at the federal, state, and local levels; and various other programs

The proposed project includes 91 units of 100% affordable housing, designated as follows: 46 supportive housing units, 33 low-income units (50% AMI), 11 very low income (30% AMI), and one manager’s unit.

H-2.4 Allow affordable residential development at densities beyond the maximum density allowed under an existing Land Use/Transportation Diagram designation, consistent with the minimum requirements of the State Density Bonus Law (Government Code Section 65915) and local ordinances.

The project utilizes three concessions and waivers through an Affordable Housing Density Bonus under AB 1763 to achieve the maximum build-out allowed under site zoning controls.

H-2.7 Support strategies in collaboration with other jurisdictions and agencies to end homelessness by creating permanent housing solutions combined with services such as medical, education, and job placement.

46 of the 91 units in the project are designated as permanent supportive housing units. The project includes numerous on-site amenities to support its residents, including a resident services suite with counseling and meeting rooms, a community room, and an adjoining food pantry operated by Second Harvest of Silicon Valley.

H-3.2 Design high density residential and mixed residential/commercial development, particularly development located in identified Growth Areas, to: 1. Create and maintain safe and pleasant walking environments to encourage pedestrian activity, particularly to the nearest transit stop and to retail, services, and amenities. 2. Maximize transit usage. 3. Allow residents to conduct routine errands close to their residence, especially by walking, biking, or transit.

The project proposes to build high-density affordable housing on an underutilized site located on a major transit corridor. The building is immediately adjacent to numerous VTA bus lines, and is within 2000 feet of the proposed Alum Rock BART Station. A secure and conveniently-located ground floor bike room provides space to park 48 bikes and includes a bike repair station. The project is located on a major commercial thoroughfare, within walking distance of numerous commercial and recreational sites.

H-4.1 Implement green building principles in the design and construction of housing and related infrastructure, in conformance with the Green Building Goals and Policies in the Envision General Plan and in conformance with the City’s Green Building Ordinance.

The project includes numerous measures which align with the goals of Climate Smart San José, as well as the Green Building Goals outlined in the 2040 General Plan. They include a tight and well-insulated building envelope, hybrid natural ventilation and unitized mechanical systems, on-site stormwater treatment, high-performance windows, EV charging infrastructure, native and low water use landscaping, and passive shading design. Moreover, building dense, livable, long-lasting, beautiful affordable housing close to services and transit is an essential part of creating a sustainable city.

H-4.2 Minimize housing’s contribution to greenhouse gas emissions, and locate housing, consistent with our City’s land use and transportation goals and policies, to reduce vehicle miles traveled and auto dependency.

Given the proximity to numerous public transit options, the project prioritized the build-out of housing and support amenities and reduced parking to a minimum to support the everyday operation of the building and the services it contains. Per above, generous on-site bike storage will serve to further reduce reliance on cars.