



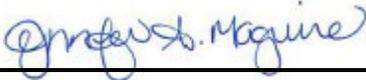
Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Erik L. Soliván
Jim Shannon

SUBJECT: See Below

DATE: November 15, 2025

Approved  Date: 11/19/24

COUNCIL DISTRICT: 5

SUBJECT: Actions Related to a Loan Commitment for the Acquisition and Rehabilitation of Virginian Apartments Located at 1718, 1724, and 1730 Virginia Avenue

RECOMMENDATION

- (a) Adopt a resolution:
 - (1) Approving an Acquisition and Rehabilitation loan commitment of up to \$5,000,000 in Real Property Transfer Tax Funds and Inclusionary Housing Ordinance Funds, or such other special funds as the City may designate to the South Bay Community Land Trust or an affiliated development entity for the Virginian Apartments development, an existing naturally occurring affordable residential rental property, located at 1718, 1724, and 1730 Virginia Avenue, which is being acquired and rehabilitated to preserve 18 affordable homes; and
 - (2) Authorizing the Housing Director, or his designee, to negotiate and execute loan documents and all other documents, including any amendments thereto, related to City financing for the Virginian Apartments development.

- (b) Adopt the following Fiscal Year 2024-2025 Appropriation Ordinance amendments in the Real Property Transfer Tax Fund:
 - (1) Decrease the Measure E – 5% Moderate-Income Households Reserve appropriation by \$3,650,000; and
 - (2) Increase the Measure E – 5% Moderate-Income Households appropriation to the Housing Department by \$3,650,000.

- (c) Adopt the following Fiscal Year 2024-2025 Appropriation Ordinance amendments in the Inclusionary Fee Fund:
 - (1) Decrease the Committed Projects Reserve appropriation by \$1,350,000; and

- (2) Increase the Housing Loans and Grants appropriation to the Housing Department in the amount of \$1,350,000.

SUMMARY AND OUTCOME

In response to the Housing Department's \$5,000,000 Acquisition and Rehabilitation Notice of Funding Availability, the South Bay Community Land Trust (SBCLT) submitted a proposal for the acquisition and rehabilitation of an existing multifamily rental property totaling 18 affordable homes occupied by acutely low-, extremely low-, and very low-income individuals and families.

Approval of the staff recommendation will enable SBCLT to complete the financing required for the acquisition and rehabilitation of the Virginian Apartments development, located at 1718, 1724, and 1730 Virginia Avenue (Virginian development), preserving 18 units of naturally occurring affordable housing.

Attachment A – Virginian Apartments Photos and Site Map - shows images of the Virginian development and a map of the site location.

BACKGROUND

On October 23, 2023, pursuant to direction included within the City's approved 2023-2031 Housing Element, the Housing Department issued a \$5,000,000 Acquisition and Rehabilitation Notice of Funding Availability for the acquisition and rehabilitation of unsubsidized small multifamily rental properties that are currently occupied by low- and moderate- income households and conversion into deed-restricted affordable housing. The Notice of Funding Availability also prioritized proposals located in high-displacement areas¹ and locations where displacement is definitively or probably occurring for households earning up to 80% of area median income.

In February 2024, staff reviewed a proposal from SBCLT for the Virginian development. In March 2024, staff issued a letter stating specific feasibility requirements needed for this funding request to be eligible for City Council consideration. When the permanent Housing Director began in May 2024, a focus was placed on developing public-private partnerships for the Virginian development, to ensure the long-term preservation of the affordable housing units.

¹ High-displacement areas can be located by using the California Estimated Displacement Risk maps, which are produced by the Urban Displacement Project. California Estimated Displacement Risk Model Map link: <https://www.urbandisplacement.org/maps/california-estimated-displacement-risk-model/>

Virginian Development Description

SBCLT, in partnership with SOMOS Mayfair, the fiscal agent, proposes to acquire, rehabilitate, and manage the Virginian development, an existing rental residential property. The development, built in 1962, is made up of three separate two-story buildings with six residential homes in each building and a total gross floor area of 12,348 square feet. The Virginian development includes 18 parking stalls with limited storage cabinets. Nearby amenities include convenient access to bus routes, as well as elementary schools, a community farm, grocery stores, parks, and retail outlets within one mile of the development.

Based on recent physical and capital needs assessment reports, the Virginian development has faced prolonged deferred maintenance. This has resulted in a need for substantial rehabilitation of the building facades and interior, including plumbing, electrical wiring, and remediation for potential water damage. The needs were fully captured in the comprehensive capital needs assessment report. During the rehabilitation, if relocation is determined to be necessary, SBCLT will adopt and ensure a relocation plan that meets local, state, and federal regulations and the plan will be reviewed and approved by the City Attorney's Office.

ANALYSIS

Developer Background and Partnerships

Established in 2019, SBCLT is a new nonprofit organization and the first nonprofit community land trust to operate in San José. SBCLT entered into a Joint Collaboration Agreement with the affordable housing developer, MidPen Housing, which has 54 years of experience in creating and managing restricted affordable homes in 45 cities throughout northern California. Additionally, to further strengthen its capacity, SBCLT entered into a Fiscal Agent Agreement with SOMOS Mayfair, an East San José community-based nonprofit, to administer funding sources and process disbursements.

Affordability Unit Mix/Area Median Income Levels

The Virginian development consists of 18 unrestricted, unsubsidized affordable rental homes comprised of 15 one-bedroom and three two-bedrooms. The development is currently fully occupied with average tenancies of over 13 years and an average household size of four. The Housing Department determined that this property is operating as naturally occurring affordable housing due to its age, location, and rents affordable to low-income households. According to self-attested data, nearly all (89%) tenants fall within the 40% area median income affordability level, with the lowest being at 16% of area median income. Five households are paying greater than 50% of their

income towards rent and are considered severely rent-burdened. For these five households, SBCLT will lower their rental rate to 30% of area median income. For all tenants, SBCLT has committed that it will not raise rent rates for one year. Rent increases in any subsequent years will be restricted to affordable rental rates in accordance with the terms of the City's Affordability Restriction policy.

Should SBCLT receive a City funding award to move forward, an affordability restriction will be tied to the Virginian development for a term of no shorter than 55 years. The affordability restriction will not be subordinated to any deeds of trust or instruments with a power of sale.

Acquisition-Rehabilitation Financing

SBCLT will acquire the Virginian development for approximately \$4,500,000. To fund the acquisition, SBCLT anticipates \$4,500,000 in Bay Area Housing Finance Authority (BAHFA) funds, which are contingent on City approval of a City loan. On June 10, 2024, BAHFA's Regional Early Action Planning 2.0 Housing Preservation Pilot Program made possible by the California Department of Housing and Community Development's Regional Early Action Planning Grant, released a Notice of Funding Availability for \$8,900,000 to provide low-interest 55-year loans to non-profit developers and community land trusts to acquire and rehabilitate unrestricted, occupied residential properties and convert them to permanently affordable housing. SBCLT's commitment to not displacing any current tenants and plan to implement a future homeownership program helped secure the BAHFA funding award.

The City's funding award, as recommended in this memorandum, will be mainly utilized for the rehabilitation of the Virginian development. The rehabilitation will address immediate needs of the development and deferred maintenance, improving the overall standard of living for the current tenants. Since the City's funding award is greater than BAHFA's funding award, the City will take first lien position for the Virginian development.

Fundraising Efforts

Based upon a recent physical and capital needs assessment reports, the immediate and ongoing maintenance needs of the Virginian development over the next 20 years is anticipated to cost \$4,200,000. SBCLT has sought additional funding sources to enhance the long-term stability of the development. While the staff recommendation in this memorandum includes a funding award of \$5,000,000 for rehabilitation and the \$4,500,000 BAHFA funding award for acquisition enables SBCLT to address immediate needs, any additional funds would support the long-term requirements of the development. SBCLT anticipates securing \$500,000 from Destination: Home to establish a displacement mitigation reserve, which will be utilized to ensure that existing

tenants do not lose their housing as a result of any extended relocation accommodations. SBCLT also anticipates receiving \$1,000,000 from a local foundation as a construction contingency reserve.

Through these public-private partnerships, the Virginian development will advance the intended outcomes of the Housing Department's release of the acquisition/rehabilitation preservation Notice of Funding Availability, with the purpose of continuing to expand the supply of affordable housing by:

1. Stabilizing and preserving the long-term affordability of naturally occurring affordable housing through capital investments, and;
2. Stabilizing families in existing units by securing unrestricted housing, and;
3. Preserving affordable units by addressing quality of life concerns.

Next Steps

Once SBCLT has obtained the necessary funding commitments for the Virginian development, it will immediately acquire the development with BAHFA funds and will then begin rehabilitation upon the close of the City loan and the \$1,500,000 in additional private resources.

By the authority delegated under section [5.06.335](#) of the San José Municipal Code, (authority to negotiate and execute City Council-approved loans, grants, and programs), the Housing Director, or his designee, will negotiate additional terms and execute documents for the Virginian development's loan, if approved by City Council.

EVALUATION AND FOLLOW-UP

The Housing Department produces quarterly information memoranda regarding the use of the Housing Director's delegation of authority under the San José Municipal Code; therefore, final loan business terms will be summarized in those future memoranda. In addition, the Housing Department posts periodic reports on the status of its affordable properties undergoing rehabilitation or construction on its website². If the staff recommendation in this memorandum is approved and the Virginian development successfully closes construction financing, it will be included in these future periodic reports.

² <https://www.sanjoseca.gov/your-government/departments-offices/housing>

COST SUMMARY/IMPLICATIONS

1. ESTIMATED COSTS:

Funding Sources and Uses	Construction/Permanent
Measure E Fund (Moderate-Income)	\$3,650,000
Inclusionary Fee Fund	\$1,350,000
Total	\$5,000,000

2. SOURCE OF FUNDING: 404 – Real Property Transfer Tax Fund; 451 - Inclusionary Fee Fund

3. FISCAL IMPACT: Funding in the amount of \$5,000,000 is available in the Real Property Transfer Tax and Inclusionary Fee Funds to encumber and draw upon when construction is initiated. The recommended actions will result in the rehabilitation and preservation of 18 affordable homes.

BUDGET REFERENCE

The table below identifies the funds and appropriations to fund the loan commitment recommended as part of this memorandum.

Fund No.	Appn. No.	Appropriation Name	Total Appropriation	Rec. Budget Action	2024-2025 Adopted Operating Budget Page	Last Budget Action (Date, Ord. No.)
404	8748	Measure E – 5% Moderate-Income Households Reserve	\$4,359,097	(\$3,650,000)	1007	10/22/2024 31130
451	8520	Committed Projects Reserve	\$40,000,000	(\$1,350,00)	959	6/18/2024 31102
404	225V	Measure E – 5% Moderate-Income Households	\$2,557,937	\$3,650,000	896	6/18/2024 31102
451	0070	Housing Loans and Grants	\$501,000	\$1,350,000	N/A	10/22/2024 31130

COORDINATION

This memorandum has been coordinated with the City Attorney's Office.

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the December 3, 2024 City Council meeting. In addition, outreach initiatives were conducted for the Virginian development as described below.

SBCLT based its community engagement strategy on tenant education, community collective action, and building collaborative partnerships. Since 2021, SBCLT and SOMOS Mayfair have led monthly meetings with tenants on various topics, including basics of community land trusts, tenants' rights, and relationship building.

- Trainings took place on-site at the Virginian development and at SOMOS Mayfair's office with occasional workshops conducted by the Silicon Valley Law Foundation and Beverly-Vermont Community Land Trust.
- One-on-one meetings took place with every tenant to ensure understanding of project updates and educational material shared in larger group meetings.
- Tenants unanimously voted to pursue the purchase of the property through SBCLT.
- After acquiring the property, SBCLT will continue to engage tenants in the rehabilitation process, fundraising efforts, proper stewardship of the land, and relationship building to ensure a thriving community.

COMMISSION RECOMMENDATION AND 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 Housing and Community Development Commission delineated in section [2.08.2840](#) of the San José Municipal Code.

CEQA

Categorically Exempt, File No. ER24-242, CEQA Guidelines Section 15301, Existing Facilities.

HONORABLE MAYOR AND CITY COUNCIL

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PUBLIC SUBSIDY REPORTING

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

/s/

Erik L. Soliván
Housing Director



Jim Shannon
Budget Director

The principal authors of this memorandum were Francisco Montes, Development Officer, and Shelsy Bass, Senior Development Officer. For questions, please contact Banu San, Housing Policy and Planning Administrator, at Banu.San@sanjoseca.gov.

ATTACHMENT - Virginian Apartments Photos and Site Map

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