Response to Interview Questions

1. **Your proposal provides units at 60% and below and at 120% AMI. The City Council stated a preference for having some units to serve the incomes in between. Is it possible to adjust your proposal to meet this goal and what would the financial impact be?**

   We are happy to tailor the unit mix together with the City. The financial impacts (expressed in additional gap financing required) for each unit moved are shown below.

   - Lowering the income target for one 120% unit:
     - 80% AMI: $143,400 per unit
     - 100% AMI: $92,400 per unit

   - Increasing the income target for one 60% unit:
     - 80% AMI: $170,400 per unit
     - 100% AMI: $77,600 per unit

2. **The City remains concerned about your proposal to use tax credit financing to pay for 235 of the public parking spaces. Please provide examples of where you or other developers have been successful using this financing methodology for non-housing related improvements.**

   A memo from the law firm Katten Muchin Rosenman (Katten) is attached, which provides a deeper technical analysis of this approach. Note that this memo makes an argument to include the entire garage. However, our financials include only the 82 residential spaces and the 235 replacement parking spaces as basis eligible costs. We, and Katten, see the cost of these spaces as a required cost of the development that is analogous to a City that requires new off-site improvements (sewers, streets, etc.) in order to build a new development.

   This is a fairly innovative approach to LIHTC development, but an important tool to help free up publically owned sites for housing development in California. The Pacific Companies is utilizing this approach for their project in Burlingame, which should start construction in early 2019. As well, Katten was involved in a similar project in Mount Vernon, New York, the LaPorte Apartments, where the rehabilitation of a publically owned parking garage was included in basis (pictured).

It is also worth mentioning that we, as project sponsors, are ultimately responsible for the credibility of our financing structure. We are required to obtain full tax opinions on the entirety of the transaction, and we are required to post various guarantees to both lenders and tax credit investors. If a financing gap were to show up as a result of a shortfall in the project's tax credit eligible basis, for whatever reason, we are required to fill the hole.

3. **How would it impact your financials if you are not able to use tax credit financing for those spaces?**

   Assuming that the 235 replacement public parking spaces are not includable in eligible basis, the loss in tax credit financing would result in an additional financing gap of $2,580,000.

4. **Do you expect that the impact of the recent federal tax code overhaul on the value of tax credits will impact the financial feasibility of your project?**

   Tax reform has driven down tax credit pricing somewhat, and we provided updated numbers that reflect both current tax credit pricing, but also recent increases in interest rates. We expect for the market to stabilize and for investors to have a strong appetite for LIHTC investments in the high-value and high CRA need areas, like San Mateo.

5. **If residential parking spaces cannot be provided on-site at the 480 E. 5th Avenue site, the Council has stated that they would prefer to see if pedestrian overpass connecting the two sites as a mitigation for the residents. Are you able to provide this and what are the financial implications?**

   Yes, we are happy to explore this with the City and estimate that a structure like this would cost approximately $1 million and create the need for $690K in additional gap financing. One potential design possibility for this bridge is shown to the right.

6. **Your project is heavily weighted towards larger units, can you describe your reason for this? Do you see a market for larger units at this location? What would be the financial impact if your proposal was to increase the number of smaller units?**

   One major reason is to take advantage of the allowed density of the sites, to provide the maximum amount of housing while still working within the unit limits allowed. In addition to allowing us to serve a greater number of people, tax credit financing is such that it does provide financial incentives for larger units (via basis limit amounts set by unit size and higher rents allowed).

We see strong need and demand for larger units across our portfolio and locally. For Eden alone, our waitlist numbers for three bedroom units are over 3,000 portfolio wide and nearly 800 in Silicon Valley region.

In addition to this first-hand knowledge, we did reach out to a market analyst to help us measure the anticipated demand for these units. Based on a preliminary analysis of just the City of San Mateo population, the anticipated need for these units by AMI level is shown below. This analysis would not capture families or persons who may who may want to live here now (i.e. San Mateo workforce), but have not been able to secure housing in the City – which would explain the lower "need" numbers in the lower AMI categories.

Unit Type	**Eligible Households**	**Units Needed**
3 BR's @ 50 %	242	54
3 BR's @ 60 %	375	84
3 BR's @ 120 %	492	110
Total	**1,109**	**248**

In spite of the above advantages and market demand data, switching 3-bedroom units to smaller units would not have a material adverse financing impact on the project, and if the City wanted a larger amount of smaller units for whatever reason, this could be accommodated.

7. Are there specific terms that you would require in the Exclusive Negotiating Agreement?

We would like the term of the ENA to be long enough to explore various project components and City goals, such that we can craft a final development plan together that finds the right balance between the City's goals and objectives along with financial considerations. We would suggest that the term be at least 6 months.