

TO: City Council
FROM: Larry A. Patterson, City Manager
PREPARED BY: City Manager's Office
MEETING DATE: Monday, April 16, 2018

SUBJECT:

Development Team Selection for the Former Redevelopment Agency Properties

RECOMMENDATION

Provide direction to staff on the selection of a development team for the former redevelopment sites and authorize the City Manager to negotiate and execute an Exclusive Negotiating Agreement with the selected team.

BACKGROUND

The City owns two properties in Downtown San Mateo, 480 E. 4th Avenue and 400 E. 5th Avenue, which were originally purchased by the City of San Mateo Redevelopment Agency. The sites are currently surface public parking lots and jointly contain 235 parking spaces. The 400 E. 5th Avenue site also houses the Worker's Resource Center. As part of the redevelopment dissolution process, the State approved the transfer of the sites to the City in March 2015 with the requirement that the City use these sites for development. As a result, the City is required to seek development proposals for the sites and to enter into a compensation agreement with the other taxing entities in San Mateo County to distribute the proceeds from the disposition of the sites (be it land sale proceeds or ground lease revenues).

The City released a Request for Qualifications (RFQ) to the development community for these sites in January 2017 with submittals due in April 2017. The City received 10 responses to the RFQ with creative approaches to meeting the City's goals for the properties. All of the development teams that submitted under the RFQ were deemed qualified, based on their development experience and their access to financing necessary to complete the project.

The variety of approaches in the RFQ responses allowed the City Council to clarify their desired outcome for the properties. The City issued a subsequent Request for Proposals (RFP) to the development teams that submitted under the RFQ and asked for revised submittals to meet these goals. The key provisions requested in the RFP were as follows:

- Provide the maximum number of allowed housing units in the project based on the current zoning for the site, calculated to be 164 units.
- Provide a minimum of 535 public parking spaces, as well as providing the required parking for the housing component.
- Include a minimum of 35% of the total housing units at rents that are affordable to income levels of 120% of Area Median Income (AMI) and below.
- Maximize the provision of "workforce" affordable housing units for income levels between 60 to 120% of AMI.

- Minimize the amount of public subsidy necessary to support the public parking and affordable housing.
- Comply with all existing zoning requirements for the site, including height and density.
- Comply with the State Density Bonus law and the City's inclusionary affordable housing requirements.
- Include a 2,000 square foot community space in the project that can be available for a variety of uses.
- Involve the community during the entitlement process.
- Pay prevailing wages.

The revised proposals were due back to the City on November 2, 2017. The City received proposals from nine out of the ten development teams that submitted under the initial RFQ. Staff reviewed the proposals with the assistance of a third party real estate economics consultant, Seifel Consulting. The review centered on responsiveness to the RFP criteria, conformance with the City's zoning code, the feasibility of the financial model based on cost assumptions and financing mechanisms, and the requested subsidy from the City for the public parking and affordable housing.

As a first step in the review process, staff issued clarifying questions to each development team on their proposals. Following those responses, staff selected a short-list of the development teams to interview which included MidPen Housing, Raintree Investments, Domicile I, Eden/Pacific Housing, and Sares Regis/Related . The short list criteria was based on conformance with the goals of the RFP and the requested financial subsidy for the affordable housing and public parking. The five teams invited for interviews were asked to address questions related to possible modifications to their proposals to better meet the City's priorities.

A summary of the key proposal elements of all nine responses to the RFP is included as Attachment 1 to this report. A detailed breakdown of the housing units, by level of affordability, for each proposal is included in Attachment 2. In addition, the full proposals and the written responses to staff questions are available for viewing [online](https://www.cityofsanmateo.org/3807/Downtown-Opportunity-Sites-RFP) (<https://www.cityofsanmateo.org/3807/Downtown-Opportunity-Sites-RFP>) or in hard copy format at the City Clerk's Office.

Finalists Recommended for Consideration

Based on the interview process, staff recommends two finalist teams for City Council consideration: MidPen Housing and Raintree Partners. These teams represent two different approaches to financing the project, a nonprofit model and a for-profit private financing approach, each with its advantages. The City Council will select the development team for this project, whether it be one of staff's recommended finalists or another team that submitted under the RFP. The final selected team will enter into an Exclusive Negotiating Agreement with the City. During the term of this agreement, the project proposal will be reviewed by the community, through the standard entitlement process, and may be modified as a result of this process.

A brief description of each proposal and some key considerations for each are outlined below.

MidPen Housing Proposal

MidPen Housing is a nonprofit affordable housing developer. Their proposal is for a fully affordable housing project where half of the units are allocated for households at 60% of AMI or below and the remaining half are allocated for households between 80% and 120% of AMI. The project requests a total subsidy of \$9.5 million from the City for both the affordable housing and public parking but is also dependent on obtaining federal tax credit financing and \$12.3 million from outside sources to fully fund the project. The two primary outside funding sources proposed are the State Infill Infrastructure Grant program and San Mateo County affordable housing funds.

The project consists of a mix of unit types ranging from studios to 3-bedroom apartments and includes 164 residential parking spaces and 535 public parking spaces. All of the housing units are located on the 480 E. 4th Avenue site and both the residential and public parking spaces are located in a parking garage on the 400 E. 5th Avenue site. A pedestrian overpass connects the two sites for ease of access to the residential parking.

A key benefit of this project proposal is that it provides much needed affordable units at a variety of income levels, which assists the City in meeting its Regional Housing Needs Assessment requirements. A potential concern about this proposal is the high level of outside gap funding required, which may impact the project schedule and/or financial feasibility of the project if the sources are not available.

Raintree Partners Proposal

Raintree Partners is a for-profit multifamily development company that has a single institutional equity partner, Evergreen Investment Partners. The Raintree Partners proposal includes 35% of the units as affordable to households between 80% and 100% AMI. The remainder of the units would be market rate. The project requests a total subsidy of \$10 million from the City and is otherwise privately financed. The project provides a mix of unit types ranging from studios to 2-bedroom apartments with 205 residential spaces and 535 public parking spaces. All of the housing units and 151 of the residential spaces are located on the 480 E. 4th Avenue site. The remaining 54 residential spaces and the public parking spaces are located in a parking garage on the 400 E. 5th Avenue site.

The proposal includes several alternatives for consideration. One option is for a portion of the residential parking spaces to be shared with the public parking, which reduces the City subsidy to \$9.5 million. Another option, is for the parking garage to be constructed in a way to allow it to be converted to another land use in the future if parking is no longer needed, which would require a higher subsidy of \$10.5 million. A third option would allow the City to increase the number of affordable units in the project to 40% of the total project, which would require a subsidy of \$12 million.

A key benefit of this project is that it is privately financed and not dependent on funding sources other than the City funds to proceed. In addition, their approach to the public parking with the multiple options is very innovative and forward thinking. A potential concern is that the project does not provide as many affordable units to meet the City's needs as the MidPen proposal.

Summary of Proposals Not Recommended for Consideration

All of the development teams that submitted under the RFP were qualified and well-respected firms. Below is a brief summary of the other proposals and the key reasons they are not recommended for further consideration by the City Council.

Domicile I

The Domicile I team is a partnership between EBL&S Property Management and EAH Housing.

The proposal includes 35% of the units as affordable to households between 80% and 120% AMI. The remaining 65% of the units would be available at rents set below market for new construction, targeted to households at 140% AMI (note that current market rents for new construction are affordable to households at 150% AMI). The project proposes to provide 662 public parking spaces and 115 residential parking spaces. All of the housing units and the residential parking are on the 480 E. 4th Avenue site and the public parking garage is located on the 400 E. 5th Avenue site.

The project has several unique aspects that differentiate it from the other proposals. The development team recommends that the housing units be available exclusively to public employees of the City, County, school districts, and other taxing entities; however, the team stated they are open to making that a preference instead of a requirement. The team also proposes to finance the public parking through a \$12.8 million loan from the developer to the City that would be repaid through the public parking revenues. Additionally, the project proposes using a new construction technology that uses pre-fab materials and modular techniques that provides primarily one-bedroom units. During the interview process, the development team indicated the project could be revised to provide up to 13% two-bedrooms if a corresponding number of studios were created.

Staff does not recommend this project as a finalist for consideration for the following reasons:

- This project requires a higher subsidy than the two recommended finalist teams. Although the project is unique in offering to finance the subsidy for the City as opposed to requesting it as an upfront contribution, the proposed interest rate is higher than what the City could likely get from other public financing options available.
- The construction costs for this project are roughly 30% lower than the average of the other submittals. While there have been recent studies that show that modular types of construction can reduce costs by up to 20%, staff believes that a 30% reduction may not be achievable which could impact the financial feasibility of the project.
- The mix of residential units are heavily weighted towards small units (87% one-bedrooms and studios), which does not provide a diversity of housing options.

Eden/Pacific Companies

The project proposal is a fully affordable project with 64% of the units available to households at or below 60% of AMI and 36% available to households at 120% of AMI. The project requires \$9.5 million of subsidy from the City for the housing and parking and would require an additional \$13.5 million from outside sources to fully fund the project. All of the housing units are located on the 480 E. 4th Avenue site and both the residential and public parking spaces are located in a parking garage on the 400 E. 5th Avenue site.

Staff does not recommend this project as a finalist for consideration for the following reasons:

- The affordability mix does not serve as broad an income range as the MidPen project. All of the affordable units are either targeting households between 50% to 60% of AMI or at 120% AMI, with nothing in between.
- The project proposes to fund a portion of the public parking garage using federal affordable housing tax credits. Staff has concerns this is not an eligible use of that financing source and that could impact project feasibility.
- The project provides only 88 residential parking spaces for the 164 housing units, which

is the minimum required parking and may not be supported by the community.

Sares Regis/Related Companies

The project proposal includes two separate residential buildings, a market rate building on the 480 E. 4th Avenue site and an affordable building with a public parking garage on the 400 E. 5th Avenue site. A total of 47% of the units in the project are affordable with 23% of the total units as affordable to households at 60% AMI or below and 24% as affordable to households between 80% and 120% of AMI. The project requires \$19 million in subsidy from the City for the affordable housing and public parking.

Staff does not recommend this project as a finalist for consideration for the following reasons:

- The required subsidy is significantly higher than the two recommended finalist teams.
- In order to accommodate residential buildings on both sites, the public parking garage is located on the back half of the 400 E. 5th Avenue site. Staff believes this placement would make it less desirable for public use.
- The City Council has stated a preference for not segregating the affordable units into a separate building from the market rate units on these sites.

BRIDGE Housing/Wilson Meany

The project proposal includes two separate residential buildings, a market rate building on the 480 E. 4th Avenue site with an affordable building and a public parking garage on the 400 E. 5th Avenue site. The project includes 52% of the total units as affordable to households at 60% AMI or below and does not include any units targeted to household from 80% to 120% of AMI. The project requires \$17.9 million in subsidy from the City for the affordable housing and public parking and requires that the public parking revenues be used as project income.

Staff does not recommend this project as a finalist for consideration for the following reasons:

- The project does not provide any units targeted to households between 80% and 120% of AMI, which was a requirement of the RFP.
- The project is only able to accommodate 162 housing units and 525 public parking spaces on the sites, which is lower than what was requested in the RFP.
- The required subsidy is significantly higher than the two recommended finalist teams.
- The City Council has stated a preference for not segregating the affordable units into a separate building from the market rate units on these sites.

Urban Housing Communities

The proposal is for 58 units of affordable veterans housing with a public parking garage on the 400 E. 5th Avenue site, and a mixed income building on the 480 E. 4th Avenue site. A total of 73% of the units in the proposal are affordable, with 40% targeted to households at or below 60% of AMI and the remainder serving households between 80% and 120% of AMI. The project requires a total of \$32.4 million in subsidy from the City for the affordable housing and public parking.

Staff does not recommend this project as a finalist for consideration for the following reasons:

- The required subsidy is significantly higher than the two recommended finalist teams.

- The project requires the sale of a portion of the site and the RFP stated that the property would be available for ground lease only.

The Core Companies

The proposal is for a residential project on the 480 E. 4th Avenue site and a public parking garage on the 400 E. 5th Avenue site. A total of 35% of the units in the project are affordable with 25% of the units as affordable to households at 60% AMI or below, and 10% as affordable to households at 120% of AMI. The project also includes a childcare facility that would be operated by Peninsula Family Services and a nonprofit office space that would be leased to HIP Housing. The project requires \$24 million in subsidy from the City to assist with the affordable housing, public parking, and childcare facility.

Staff does not recommend this project as a finalist for consideration for the following reasons:

- The required subsidy is significantly higher than the two recommended finalist teams.
- The affordability mix does not serve as broad an income range. All of the affordable units are either targeting households at or below 60% of AMI or at 120% AMI, with nothing in between.

Civic Partners

The proposal is for a residential project on the 480 E. 4th Avenue site and a public parking garage on the 400 E. 5th Avenue site. A total of 35% of the units in the project are affordable with 20% of the units as affordable to households at 60% AMI or below, and 15% as affordable to households at 120% of AMI. The project requires \$20 million in subsidy from the City to assist with the affordable housing and public parking.

Staff does not recommend this project as a finalist for consideration for the following reasons:

- The required subsidy is significantly higher than the two recommended finalist teams.
- The affordability mix does not serve as broad an income range. All of the affordable units are either targeting households below 60% of AMI or at 120% AMI, with nothing in between.

Next Steps

Once the Council has selected a development team, the City will then negotiate and enter into an Exclusive Negotiating Agreement that will remain in effect throughout the entitlement process. The selected development team will be required to go through the standard entitlement process, which will include compliance with the California Environmental Quality Act (CEQA), community meetings, and Planning Commission review of the proposed design and layout.

During the entitlements process, the City will negotiate the financial terms of the project, which could change from the initial proposal based on project changes that may occur following community feedback. In addition, the City will negotiate with the various taxing agencies in the County to agree on the required Compensation Agreement for the disposition of the site under the Long Range Property Management Plan. The final terms, which will be in a Disposition and Development Agreement, would be approved by City Council concurrent with the final entitlements for the project.

BUDGET IMPACT

Selection of a development team with which to negotiate does not require any financial contribution from the City. It is anticipated that the City will need to contribute funds to assist with the development of affordable housing and public parking on the site, the amount of which will be negotiated and brought back to Council for approval as part of a Disposition and Development Agreement for the properties.

ENVIRONMENTAL DETERMINATION

In accordance with CEQA Guidelines Section 15378(b)(5), selection of a development team with which to exclusively negotiate is an administrative activity that will not impact the environment and is therefore not a project subject to CEQA. Any future development project that occurs on the sites will be subject to CEQA review.

NOTICE PROVIDED

All meeting noticing requirements were met.

ATTACHMENTS

Att 1 – RFP Submittal Summary

Att 2 – Affordable Housing Summary

STAFF CONTACT Kathy Kleinbaum, Deputy City Manager
 kkleinbaum@cityofsanmateo.org
 (650) 522-7153

Attachment 1: RFP Submittal Summary

| Proposal Details | Raintree | MidPen | Domicile | Eden/Pacific Companies | Sares Regis/Related | BRIDGE/Wilson Meany | Urban Housing Communities | The Core Companies | Civic Partners |
|---|----------------------------|----------------|--------------------------|-------------------------------|----------------------------|----------------------------|----------------------------------|---------------------------|-----------------------|
| Percent of units that are affordable (120% AMI or below) | 35% | 99% | 35% | 99% | 47% | 52% | 73% | 35% | 35% |
| Moderate Income Units (units between 80% - 120% AMI) | 57 | 81 | 58 | 58 | 39 | 0 | 53 | 17 | 24 |
| Low Income Units (units at or below 60% AMI) | 0 | 81 | 0 | 105 | 38 | 84 | 66 | 41 | 33 |
| Public Parking Spaces | 535 | 535 | 662 | 535 | 536 | 525 | 535 | 535 | 535 |
| Private Parking Spaces | 205 | 164 | 115 | 88 | 168 | 162 | 240 | 115 | 239 |
| City Subsidy for Housing | 0 | \$4.5 M | 0 | \$4.5 M | \$4.5 M | \$3.1 M | \$20.7 M | \$4.5 M | \$4.5 M |
| City Subsidy for Parking | \$10.0 M | \$5.0 M | \$12.8 M (loan) | \$5.0 M | \$14.5 M | \$14.8 M | \$11.7 M | \$18.0 M | \$15.5 M |
| Total City Subsidy (including other City sources) | \$10.0 M | \$9.5 M | \$12.8 M | \$9.5 M | \$19.0 M | \$17.9 M | \$32.4 M | \$24.0 M | \$20.0 M |
| Total Gap Funds required from other sources | \$0 | \$12.3 M | \$0 | \$13.4 M | \$0 | \$1 M | \$8.9 M | \$1.3 M | \$0 |
| Annual ground lease payments (at stabilization) | \$10,000 | \$0 | \$150,000 | \$63,000 | \$153,000 | \$152,100 | Land sale required | \$215,000 | \$203,000 |
| Parking Revenues Kept by City? | yes, after initial 3 years | yes | no, used to finance loan | yes | yes | no | yes | no, used to finance bond | yes |
| Affordable units in separate building than market rate units? | no | all affordable | no | all affordable | yes | yes | yes | no | yes |
| % units (2 or more bedrooms) | 21% | 52% | 12.8% | 78% | 50% | 53% | 62% | 4% | 63.4% |
| Total Development Costs | \$89.9 M | \$101.4 M | \$69.9 M | \$115.8 M | \$94.9 M | \$122.2 M | \$133.7 M | \$102.6 M | \$121.8 M |

Attachment 2: Summary of Affordable Units Proposed

| Development Team | Total Housing Units | Affordable Units (120% AMI and below) | % Affordable Units (120% AMI and below) | Units at Affordability Levels | | | | | |
|------------------------------------|---------------------|---------------------------------------|---|-------------------------------|---------|----------|----------|----------|--------------------|
| | | | | <60% AMI | 80% AMI | 100% AMI | 120% AMI | 140% AMI | Market (150% AMI+) |
| Raintree | 164 | 57 | 35% | 0 | 25 | 32 | 0 | 0 | 107 |
| MidPen Housing | 164 | 162 | 99% | 81 | 32 | 0 | 49 | 0 | 2 |
| Domicile 1 - EAH Housing and EBL&S | 164 | 58 | 35% | 0 | 35 | 0 | 23 | 106 | 0 |
| Eden Housing and Pacific Companies | 164 | 163 | 99% | 105 | 0 | 0 | 58 | 0 | 1 |
| Sares Regis and Related | 164 | 77 | 47% | 38 | 15 | 16 | 8 | 0 | 87 |
| Bridge Housing and Wilson Meany | 162 | 84 | 52% | 84 | 0 | 0 | 0 | 0 | 78 |
| Urban Housing Communities | 164 | 119 | 73% | 66 | 16 | 17 | 20 | 0 | 45 |
| The Core Companies | 164 | 58 | 35% | 41 | 0 | 0 | 17 | 0 | 106 |
| Civic Partners | 164 | 57 | 35% | 33 | 0 | 0 | 24 | 0 | 107 |