

# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Rosalynn Hughey  
Jim Shannon

**SUBJECT:** SEE BELOW

**DATE:** April 10, 2024

Approved

Date

*Rosalynn Hughey*

4/17/24

**COUNCIL DISTRICT: 3**

**SUBJECT: ACTIONS RELATED TO A LOAN COMMITMENT FOR HAWTHORN  
SENIOR APARTMENTS LOCATED AT 118 AND 124 NORTH FIFTEENTH  
STREET FOR THE DEVELOPMENT OF NEW AFFORDABLE RENTAL  
HOUSING**

## **RECOMMENDATION**

(a) Adopt a resolution:

- (1) Approving a combined Construction-Permanent Loan commitment of up to \$15,150,000 in Measure E Funds, or such other special funds as the City may designate, to Santa Clara County Housing Authority or an affiliated development entity for the Hawthorn Senior Apartments development, located at 118 and 124 North 15<sup>th</sup> Street, which is being developed to provide 101 affordable rent-restricted apartments, and two unrestricted manager's apartments;
- (2) Authorizing a loan-to-value ratio of greater than 100% for the Hawthorn Senior Apartments development;
- (3) Authorizing the loan terms to allow an increase in the rents and income restrictions of up to 60% of Area Median Income for new tenants in Project-Based Voucher subsidized apartments 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 above development and allowed by other funds; and
- (4) Authorizing the Director of Housing, the Acting Director of Housing, or their designee to negotiate and execute loan documents and all other documents, including any amendments thereto, related to City financing for the Hawthorn Senior Apartments development.

(b) Adopt the following 2023-2024 Appropriation Ordinance amendments in the General Fund:

- (1) Decrease the Measure E – 40% Extremely Low-Income Households Reserve by \$7,650,000;
- (2) Decrease the Measure E – 30% Low-Income Households Reserve by \$7,500,000;
- (3) Increase the Measure E – 40% Extremely Low-Income Households appropriation to the Housing Department by \$7,650,000; and

- (4) Increase the Measure E – 30% Low-Income Households appropriation to the Housing Department by \$7,500,000.

## **SUMMARY AND OUTCOME**

In response to the \$50 million Notice of Funding Availability (NOFA) for new multifamily construction developments released on October 10, 2023, the Santa Clara County Housing Authority (SCCHA) submitted a development proposal for an affordable housing development, creating 101 apartments restricted for extremely low- and very low-income individuals and families. Fifty-one units will be extremely low-income apartments and 50 units will be very low-income apartments. Forty-seven units will be set-aside for subsidy assisted individuals and households, which will be supported by project-based vouchers (PBV) for at least 20 years. Of these voucher-subsidized units, 21 units are intended for permanent supportive housing (PSH) for chronically homeless individuals and families and 26 units are intended for extremely low-income seniors.

Approval of the recommended actions will enable SCCHA or its affiliated entity (Developer) to assemble the financing for the development of Hawthorn Senior Apartments located at 118 and 124 North 15<sup>th</sup> Street (Hawthorn Senior Apartments development). **Attachment A** – Hawthorn Senior Apartments Site Map and Rendering - provides a map and rendering of the affordable housing development. Approval of the recommended actions will also allow the Developer to move forward with the closing of construction financing if an allocation is awarded by the California Tax Credit Allocation Committee (CTCAC) on May 15, 2024.

In the event of foreclosure or loss of PBVs, approval of the recommended actions will also allow the Hawthorn Senior Apartments development to increase rents and income restrictions, but not to more than 30% of 60% of area median income, to ensure the continued financial feasibility of the development. The increase will apply to new tenants in PBV-subsidized units in the event of expiration or termination of subsidy contracts and for all tenants in the event of foreclosure.

## **BACKGROUND**

San José lacks a sufficient amount of affordable housing to meet residents' needs. The City's Regional Housing Needs Allocation for the 2023-2031 (sixth cycle) Housing Element is 62,200 housing units. Fifty-five percent of these units must be affordable (i.e., for extremely low-, very low-, low-, and moderate-income households). During the City's Regional Housing Needs Allocation for the 2014-2022 (fifth cycle) Housing Element, the City only created 26% of the affordable housing production goal. The City's Housing Catalyst Work Plan incorporates programs and strategies to produce and preserve affordable housing in alignment with the City's 2023-2031 Housing Element.

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On October 10, 2023, under the City Council's direction, the Housing Department issued a \$50 million NOFA for the development of affordable housing for extremely low-, very low-, and low-income individuals and families. The NOFA prioritized affordable multifamily rental housing developments that will provide housing for extremely low-, very low-, and low-income individuals and families, with 40% of the funding prioritized for extremely low-income housing.

The City received 17 NOFA applications for multifamily new construction developments in October 2023 and selected four developments for awards. Hawthorn Senior Apartments is the first of the four selected developments from the October 2023 new construction NOFA being brought forth to the City Council for a funding commitment and represents \$15,150,000 of the \$50,000,000 in City funds released in the October 2023 NOFA. Housing Department staff plans to recommend the remaining three selected developments for City Council commitments within the next 12 months and close financing on all four developments throughout calendar years 2024 and 2025. More details regarding the Housing Department's progress on 2023 NOFA awarded projects are included in **Attachment B** – 2023 New Construction NOFA Pipeline Report.

The Hawthorn Senior Apartments development will be funded through the following sources:

- City Measure E funds;
- County of Santa Clara Measure A funds;
- County of Santa Clara No Place Like Home Funds;
- Low-Income Housing Tax Credits; and
- Senior bank loans.

## **ANALYSIS**

### ***Development Description***

SCCHA proposes to develop, own, and manage Hawthorn Senior Apartments, a new senior affordable housing development consisting of 103 units (101 affordable rent-restricted units and two unrestricted managers' units) on a 1.1-acre site located at 118 and 124 North 15<sup>th</sup> Street, San José, CA 95112. SCCHA developed plans and received its planning entitlements on September 2, 2022. Prior to the closing of construction financing, estimated to be by November 2024, Hawthorn Senior Apartments LP, a limited partnership in which the managing general partner is wholly owned by SCCHA or an affiliate, will acquire the site for \$4,100,000.

The Hawthorn Senior Apartments development will consist of the construction of a new four-story building with three levels of residential units over an at-grade podium garage with approximately 48 parking spaces. The development will include offices for property management and resident services and a large central podium courtyard with space for communal events as well as garden planters for residents to grow their own fruits and vegetables. The building will include a community room on the second level with a computer station and office equipment for resident use. The community room will also be used for resident leisure and resident programming, including educational classes, community-building workshops,

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and social activities.

Services for all residents will be provided by LifeSTEPS and residents of the PHS units will also receive supportive services from Abode Services. Services by both providers will be tailored to the residents' needs. Residential services will include case management, educational classes, life skills training, and food assistance. Supportive services will also be tailored to each resident's needs and focus on helping them succeed in maintaining housing, improving their health, and achieving housing stability in the long-term. The Hawthorn Senior Apartments development will also have three two-bedroom units to accommodate senior residents who require a live-in aide, ensuring all applicable residents receive tailored care.

The site is currently vacant and has no structures; therefore, no relocation benefits are required of the Developer. The City will require that the Developer provide a no-relocation certificate and indemnify the City.

***Affordability Unit Mix/Area Median Income Levels***

The Hawthorn Senior Apartments development will consist of 101 affordable rent-restricted units and two unrestricted managers' units. The affordable units are comprised of 36 studios (35%), 62 one-bedrooms (60%), and five two-bedrooms (5%). Of the 101 affordable homes, 51 homes will be reserved for extremely low-income households earning up to 30% area median income and 50 homes will be reserved for very low-income households earning up to 50% area median income. Refer to **Table 1** to view the details of the Hawthorn Senior Apartments development's unit mix and associated income and rent limits.

Additionally, 21 homes will be reserved for PSH to help chronically homeless individuals and families obtain and maintain permanent housing.

***Table 1 – Hawthorn Senior Apartments Development Maximum Income and Rent Limit Unit Mix***

UNIT SIZE	30% AMI			50% AMI			MGR UNIT	TOTAL
	Units	Max Income *	Rent Limits	Units	Max Income *	Rent Limits		
<b>Studio</b>	17	\$37,470	\$936	19	\$62,450	\$1,561		<b>36</b>
<b>1-Bedroom</b>	32	\$40,155	\$1,003	30	\$66,925	\$1,673		<b>62</b>
<b>2- Bedroom</b>	2	\$48,180	\$1,204	1	\$80,300	\$2,007	2	<b>5</b>
<b>Total</b>	<b>51</b>			<b>50</b>			<b>2</b>	<b>103</b>

\*Maximum income limits are based on CTCAC occupancy guidelines of 1.5 persons per bedroom.

***Assisted Units***

SCCHA has committed to providing 47 PBVs to support 21 PSH units for chronically homeless individuals and families plus 26 homes for extremely low-income senior households earning up to 30% of the area median income. Within two years of the conclusion of the initial 20-year contract term of the PBVs, it is SCCHA's normal procedure to analyze a development to determine whether it is eligible for an extension term of up to 20 additional years. **Table 2** provides details of Hawthorn Senior Apartments development's voucher-supported unit mix.

***Table 2 – Hawthorn Senior Apartments Development Voucher-Supported Unit Mix***

UNIT SIZE	PBVs
	30% AMI
<b>Studios</b>	17
<b>1-Bedroom</b>	28
<b>2-Bedroom</b>	2
<b>Total</b>	<b>47</b>

**Table 3** provides a summary of City funding and cost details for the Hawthorn Senior Apartments development.

***Table 3 – Summary of City Funding and Cost for Hawthorn Senior Apartments Development***

Development Name	City Loan Request	Per Unit Allocation	Total Units	PSH	PBV	Total Development Cost	Cost/Unit
<b>Hawthorn Senior Apartments Development</b>	\$15,150,000	\$147,087	103	26	47	\$88,914,736	\$863,250

***Construction-Permanent Financing***

The Hawthorn Senior Apartments development's construction period financing sources include \$2,004,775 in federal tax credit equity, \$15,550,000 in County of Santa Clara Measure A funds, \$4,000,000 in County of Santa Clara No Place Like Home funds, \$35,552,881 in SCCHA funds, and a senior lender construction loan of \$29,210,165.

Permanent financing includes \$20,046,755 in federal tax credit equity, \$15,550,000 in County of Santa Clara Measure A funds, \$4,000,000 in County of Santa Clara No Place Like Home funds, \$20,552,881 in SCCHA funds, and a senior lender permanent loan of \$13,615,000. The City plans to provide financing of approximately \$150,000 during construction and to provide the remainder of the requested amount of up to \$15,150,000 during the permanent phase of the development. **Attachment C – Hawthorn Senior Apartments Sources and Uses** - provides details about funding sources and uses.

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The majority of the City's \$15,150,000 loan will be disbursed after conversion to the permanent phase. This loan structure allows the encumbrance of \$15,000,000 of the City's total loan amount to be delayed until late 2026, lessening the strain on the Housing Department's funding sources for the next two years.

***Affordable Housing Siting Policy***

The City Council approved the Affordable Housing Siting Policy<sup>1</sup> on December 6, 2022. The policy aims to reverse the impacts of segregation in San José and facilitate the construction of affordable housing throughout the City to achieve socio-economic integration. To achieve this goal, the policy includes two neighborhood area categories, Affordable Housing Expansion Areas and Continued Investment Areas. Affordable Housing Expansion Areas reflect parts of San José where affordable housing can provide residents access to more economic opportunities and neighborhoods associated with upward mobility, educational attainment, and positive outcomes for children. Continued Investment Areas reflect parts of San José where the City will continue investing in affordable housing due to the severe shortage of available housing for existing residents. The Hawthorn Senior Apartments development is located within a Continued Investment Area.

***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 ratio that significantly exceeds 100%, which is the threshold for the City's delegation of authority LTV policy.

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 1990s and early 2000s. The deeper affordability of a project increases the need for public subsidies, while decreasing the project's market value, leading to an increased LTV ratio. An elevated LTV ratio above 100% is not uncommon for public lenders in the affordable housing industry. Projects that have a high LTV ratio are considered acceptable by the City if the development'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.

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<sup>1</sup> San José Affordable Housing Siting Policy: <https://www.sanjoseca.gov/your-government/depa-offices/housing/developers/affordable-housing-plans-policies/affordable-housing-siting-policy>

The Hawthorn Senior Apartments development has 55-year cash flow projections resulting in a debt service coverage ratio of 1.15 in the first year and increasing year over year.

***Climate Smart San José Analysis***

The staff recommendation in this memorandum aligns with one or more of Climate Smart San José energy, water, or mobility goals. The Hawthorn Senior Apartments development is an all-electric, California Green Building Standards Code-compliant development that is on target to receive Silver Level Green Point Rated Certification.

Pursuant to the California Green Building Standards Code, every effort has been made to preserve natural resources and to minimize negative effects on the site. All plumbing fixtures are water efficient and landscaping is compliant with the California Department of Water Resources' Model Water Efficient Landscape Ordinance. Additionally, landscaping irrigation uses recycled water from flow-through planters on-site and prioritizes drought-tolerant and/or native species.

The Hawthorn Senior Apartments development has also pursued energy savings and carbon reductions wherever possible. The project includes approximately 12,000 square feet of solar photovoltaic panels, energy-efficient lighting fixtures, and a highly energy-efficient water heat pump system. The project provides five parking spaces with electric vehicle supply equipment, nine electric vehicle-ready spaces, and 31 spaces that can support future electric vehicle charging stations. Structural concrete mixes contain between 30-70% supplementary cementitious materials content to reduce carbon emissions.

Many aspects of the Hawthorn Senior Apartments development are designed to encourage a healthy lifestyle for seniors. The development offers an easily accessible bike room near the lobby, ample sunlit common areas for gathering, frequent opportunities for natural ventilation, and a large community room with a computer area and open kitchen that overlooks the central courtyard. The courtyard provides many benches and plantings, as well as raised planter beds for residents to use for gardening.

***Next Steps***

If the Developer is able to obtain an allocation of tax credits from CTCAC for the Hawthorn Senior Apartments development on May 15, 2024, the City will facilitate a construction financing closing in the second half of calendar year 2024. If the Developer is unable to obtain an allocation of tax credits from CTCAC to close all funding gaps, the Developer will seek an allocation from the second round of CTCAC on October 2, 2024. For the Hawthorn Senior Apartments development, construction is estimated to initiate by the end of 2024 and conclude in mid-2026. **Attachment D** – Hawthorn Senior Apartments Anticipated Development Timeline - provides details of the development timelines and future milestones.

By the authority delegated under section 5.06.335 of the San José's Municipal Code, which provides authority to negotiate and execute City Council-approved loans, grants, and programs, the Director of Housing, Acting Director of Housing, or their designee will negotiate additional

terms and execute documents for this loan in accordance with the City Council's approval, if granted, for the Hawthorn Senior Apartments development .

### **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 San José Municipal Code; therefore, final loan business terms will be summarized in future information memoranda. In addition, the Housing Department posts periodic reports on the status of its affordable properties undergoing rehabilitation or construction on its website: <https://www.sanjoseca.gov/your-government/departments-offices/housing>. If the recommended actions in this memorandum are approved, and the Hawthorn Senior Apartments development successfully closes construction financing, it will be included in future periodic reports.

### **COST SUMMARY/IMPLICATIONS**

1. ESTIMATED COSTS:

<b>Funding Sources and Uses</b>	<b>Construction/Permanent Loans</b>
Measure E (extremely low-income)	\$7,650,000
Measure E (low-income)	\$7,500,000
<b>Total</b>	<b>\$15,150,000</b>

2. SOURCE OF FUNDING: General Fund – Measure E – 40% Extremely Low-Income Households Reserve and Measure E – 30% Low-Income Households Reserve;
3. FISCAL IMPACT: Funding in the amount of \$15,150,000 is available in the General Fund (Measure E), to encumber and draw upon when construction is initiated. The recommended actions will result in the development of 101 affordable apartments and two manager's units.



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**BUDGET REFERENCE**

Fund #	Appn #	Appropriation Name	Total Appropriation	Recommended Budget Action	2023-2024 Adopted Operating Budget Page	Last Budget Action (Date, Ord. No.)
001	8744	Measure E – 40% Extremely Low-Income Households Reserve	\$39,088,924	(\$7,650,000)	959	3/26/2024 31047
001	8745	Measure E – 30% Low-Income Households Reserve	\$30,480,040	(\$7,500,000)	959	3/26/2024 31047
001	224L	Measure E – 40% Extremely Low-Income Households	\$27,281,581	\$7,650,000	915	3/26/2024 31047
001	224M	Measure E – 30% Low-Income Households	\$41,619,285	\$7,500,000	915	3/26/2024 31047

**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 April 30, 2024 City Council meeting.

Additionally, three phases of outreach initiatives were conducted for the Hawthorn Senior Apartments development to engage with local stakeholders and to keep the community apprised of project updates.

Phase 1: Listening and Learning (September 5, 2017 – March 6, 2019)

- Gathered related stakeholder information for the neighborhood, adjacent businesses, non-profit organizations, and student groups to create an outreach list of people who would be

provided information regarding the Hawthorn Senior Apartments development.

- Confirmed outreach list with local elected officials and invited them to be part of the visioning for the development.
- Presented concepts to community stakeholders for feedback to improve design and community engagement moving forward.
- Offered one-on-one meetings to all leaders identified through the asset mapping exercise as well as any homeowner associations at several nearby developments.

**Phase 2: Formal Community Engagement (September 9, 2019 – September 7, 2021)**

- Conducted a community meeting to present the vision for the Hawthorn Senior Apartments development and receive feedback from the public, as well as inform the public about the upcoming entitlement process.

**Phase 3: Post-Entitlement and Construction Outreach (Ongoing)**

- Keep information about the property development process updated on website.
- Keep community leaders and elected officials up to date about the development timeline.
- Be available for neighborhood association, one-on-one meetings, and property tours for those interested.

**COMMISSION RECOMMENDATION AND INPUT**

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

**CEQA**

Exempt pursuant to Public Resources Code section 21080(b)(1) and CEQA Guidelines section 15369, Ministerial Project pursuant to Government Code section 65913.4, file number ER20-109.

HONORABLE MAYOR AND CITY COUNCIL

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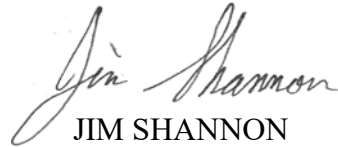
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## **PUBLIC SUBSIDY REPORTING**

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/

ROSALYNN HUGHEY  
Deputy City Manager and  
Acting Housing Director



JIM SHANNON  
Budget Director

The principal author of this memorandum is Michael Jun, Senior Development Officer. For questions, please contact Ragan Henninger, Deputy Director, Housing Department, at [ragan.henninger@sanjoseca.gov](mailto:ragan.henninger@sanjoseca.gov).

## **ATTACHMENTS**

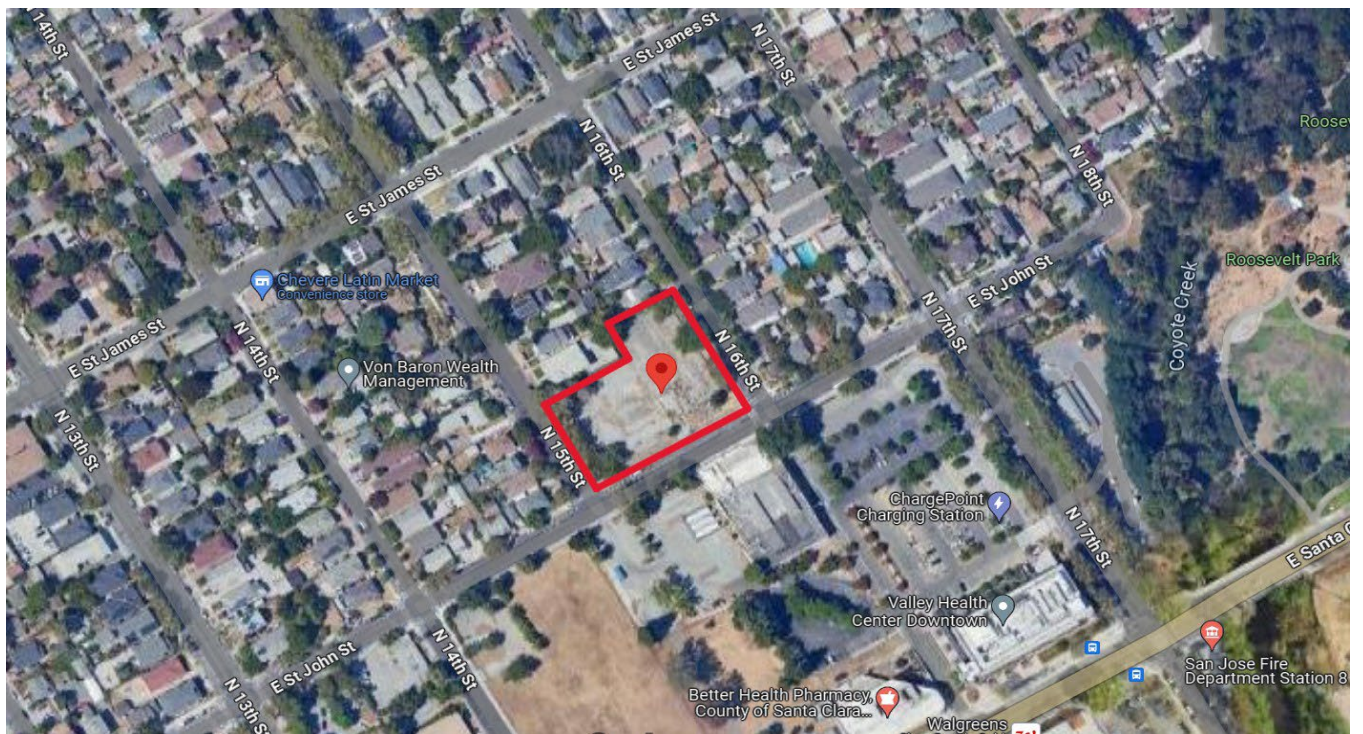
Attachment A – Hawthorn Senior Apartments Site Map and Rendering

Attachment B – 2023 New Construction NOFA Pipeline Report

Attachment C – Hawthorn Senior Apartments Sources and Uses

Attachment D – Hawthorn Senior Apartments Anticipated Development Timeline

## ATTACHMENT A – Hawthorn Senior Apartments Site Map and Rendering



**ATTACHMENT B – 2023 New Construction NOFA Pipeline Report**

<b>Conditional Commitments - Awaiting City Council Approval</b>						
<b>Development Name</b>	<b>Council District</b>	<b>Total # of Units</b>	<b>Original NOFA Funds Requested</b>	<b>Total Development Cost</b>	<b>Per Unit Cost</b>	<b>Project Stage</b>
Vista Montana	4	95	\$14,100,000	\$75,991,574	\$799,911	Applying to California Department of Housing and Community Development's Affordable Housing and Sustainable Communities round eight. Awards to be announced in August 2024. Applying to the California Debt Limit Allocation Committee in March/April of 2025.
Hawthorn Senior Apartments	3	103	\$15,150,000	\$88,914,736	\$863,250	9% tax credit project. Applied to California Tax Credit Allocation Committee on February 13, 2024. Allocations to be announced May 15, 2024.
Santa Teresa Multifamily	10	49	\$7,200,000	\$38,941,929	\$794,733	9% tax credit project. Applying to California Tax Credit Allocation Committee on July 2, 2024. Allocations to be announced October 2, 2024.
Algarve Apartments	3	91	\$13,500,000	\$87,146,846	\$957,658	Applying to California Department of Housing and Community Development's Affordable Housing and Sustainable Communities round eight. Awards to be announced in August 2024. Applying to the California Debt Limit Allocation Committee in March/April of 2025.
<b>SUBTOTAL</b>		<b>338</b>	<b>\$49,950,000</b>			

2023 New Construction NOFA		\$50,000,000
Total NOFA Applicant Request		\$257,450,000
<b>Total Awarded</b>		<b>\$49,950,000</b>
Total NOFA Waitlisted Applicant Request		\$207,500,000

**ATTACHMENT C – Hawthorn Senior Apartments Sources and Uses**

<b>Construction Period Sources</b>	<b>Construction Period Amounts</b>
<b>Federal Low Income Housing Tax Credit</b>	\$2,004,775
<b>City of San José Measure E</b>	150,000
<b>Santa Clara County Measure A</b>	15,550,000
<b>Santa Clara County No Place Like Home</b>	4,000,000
<b>Santa Clara County Housing Authority</b>	35,552,881
<b>Taxable Construction Loan</b>	29,210,165
<b>Total</b>	\$86,467,821

<b>Permanent Sources</b>	<b>Permanent Amounts</b>
<b>Federal Low Income Housing Tax Credit</b>	\$20,046,855
<b>City of San José Measure E</b>	15,150,000
<b>Santa Clara County Measure A</b>	15,550,000
<b>Santa Clara County No Place Like Home</b>	4,000,000
<b>Santa Clara County Housing Authority</b>	20,552,881
<b>Taxable Permanent Loan</b>	13,615,000
<b>Total</b>	\$88,914,736

<b>Uses</b>	<b>Amounts</b>
<b>Acquisition</b>	\$4,104,972
<b>Construction</b>	64,362,768
<b>Hard Cost Contingency</b>	3,218,138
<b>Architecture, Design, Engineering</b>	3,835,696
<b>Permits, Fees, Insurance, Administration</b>	5,190,570
<b>Soft Cost Contingency</b>	480,316
<b>Construction Period Interest</b>	3,150,754
<b>Financing Fees</b>	495,224
<b>Title, Escrow, Lender Closing Costs</b>	606,614
<b>Marketing, Furnishings, Reserves</b>	1,269,684
<b>Developer Fee</b>	2,200,000
<b>Total</b>	\$88,914,736

**ATTACHMENT D – Hawthorn Senior Apartments Anticipated Development Timeline**

Development Milestone	Date
Apply for CTCAC Tax Credit Allocation	February 2024
CTCAC Tax Credit Allocation Award	May 2024
Close Financing	November 2024
Start Construction	December 2024
Complete Construction (18 months)	June 2026