

8.3 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 Fifteenth 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.
- 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 No. ER20-109. Council District 3. (Housing/City Manager)



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Rosalynn Hughey
Jim Shannon

SUBJECT: SEE BELOW

DATE: April 10, 2024

Approved

Date

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 15th 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

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- (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 15th 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 15th 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		
Studio	17	\$37,470	\$936	19	\$62,450	\$1,561		36
1-Bedroom	32	\$40,155	\$1,003	30	\$66,925	\$1,673		62
2- Bedroom	2	\$48,180	\$1,204	1	\$80,300	\$2,007	2	5
Total	51			50			2	103

*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
Studios	17
1-Bedroom	28
2-Bedroom	2
Total	47

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
Hawthorn Senior Apartments Development	\$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 Policy¹ 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.

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

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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:

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

- 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

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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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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.

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

Conditional Commitments - Awaiting City Council Approval						
Development Name	Council District	Total # of Units	Original NOFA Funds Requested	Total Development Cost	Per Unit Cost	Project Stage
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.
SUBTOTAL		338	\$49,950,000			

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

ATTACHMENT C – Hawthorn Senior Apartments Sources and Uses

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

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

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

RESOLUTION NO. _____

A RESOLUTION OF THE COUNCIL OF THE CITY OF SAN JOSE (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 15TH STREET; (2) AUTHORIZING A LOAN-TO-VALUE RATIO OF GREATER THAN 100% FOR THE LOAN; (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 PROJECT

WHEREAS, on October 10, 2023, the Housing Department issued a \$50 million Notice of Funding Availability (“NOFA”) for the development of affordable multifamily housing that will provide housing for extremely low-, very low-, and low-income individuals and families; and

WHEREAS, out of the 17 NOFA applications for multifamily new construction developments received in October 2023, the City of San José (“City”) selected four developments to receive awards; and

WHEREAS, Hawthorn Senior Apartments (“Development”) is the first of the four selected developments 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; and

WHEREAS, the Santa Clara County Housing Authority (“SCCHA”) proposes to develop, own, and manage the Development, a new senior affordable housing development consisting of 103 units (including 101 affordable rent-restricted units and two unrestricted managers’ units) located at 118 and 124 North 15th Street, San José, CA; and

WHEREAS, the Development will be funded through a variety of sources, including City Measure E funds; City-issued Multifamily Housing Revenue Bonds; County of Santa Clara Measure A funds; County of Santa Clara No Place Like Home Funds (“NPLH”) funds; Low-Income Housing Tax Credits; and Senior bank loans; and

WHEREAS, the 101 affordable units will be comprised of 36 studios, 62 one-bedrooms, and 5 two-bedrooms with 51 units reserved for extremely low-income (“ELI”) households earning up to 30% Area Median Income (“AMI”), and 50 units reserved for very low-income households earning up to 50% AMI; and

WHEREAS, additionally, 21 units will be reserved for Permanent Supportive Housing (“PSH”) to help chronically homeless individuals and families obtain and maintain permanent housing; and

WHEREAS, SCCHA has committed to providing 47 Project Based Vouchers (“PBVs”) to support 21 PSH units for chronically homeless individuals and families plus 26 units for ELI senior households earning up to 30% AMI; and

WHEREAS, City's Loan to Value ("LTV") policy requires that the LTV ratio not exceed 100% in order to mitigate the City's risk of potential loss associated with a loan, however, the City now builds more deeply affordable developments than it did in the 1990's and early 2000's, so the LTV is not the ideal measure of stability for modern developments, and City staff recommend waiver of the LTV if a development's projected operating income is expected to be at least 1.15 times the required permanent mortgage payment; and

WHEREAS, it is expected that the LTV ratio for the Development will exceed 100%, nevertheless, City staff recommend waiver of the LTV as the Development's projected operating income is expected to be at least 1.15 times the required permanent mortgage payment; and

WHEREAS, approval of staff's recommended action, in the event of foreclosure or loss of PBVs, will allow the Development to increase rents and income restrictions (but not exceed 30% of 60% of area median income) to ensure the continued financial feasibility of the Development; and

WHEREAS, both increase to rent and income restrictions will apply to new tenants in PBV subsidized units in the event of expiration or termination of subsidy contracts, and for some or all tenants in the event of foreclosure to the extent the City has determined such increases are needed for the feasibility of the Development and are allowed by other funding sources; and

WHEREAS, the Development is located within a Continued Investment Area reflecting a part of San José where the City will continue investing in affordable housing due to severe shortage of available housing for existing residents; and

WHEREAS, approval of the recommended actions will enable SCCHA to assemble the financing for the Development and will also allow the SCCHA to move forward with the closing of construction financing if an allocation is awarded by the California Tax Credit Allocation Committee on May 15, 2024;

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SAN JOSE THAT:

1. A total commitment of up to \$15,150,000 in Measure E Funds, or such other special funds as the City may designate, for a Construction-Permanent loan to SCCHA or an affiliated development entity for the Hawthorn Senior Apartments development, located at 118 and 124 North 15th Street, which is being developed to provide 101 affordable rent-restricted apartments, with 51 units reserved for extremely low-income households earning up to 30% Area Median Income, 50 units reserved for very low-income households earning up to 50% AML, and two unrestricted manager's apartments is hereby approved; and
2. A loan-to-value ratio of greater than 100% for the Hawthorn Senior Apartments development is hereby authorized; and
3. The City loan terms are hereby authorized 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 the contract for 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. The Director of Housing, the Acting Director of Housing, or their designee is hereby authorized to negotiate and execute loan documents and all other documents, including any amendments thereto, related to City financing for the Hawthorn Senior Apartments development.

ADOPTED this ____ day of _____, 2024, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

MATT MAHAN
Mayor

ATTEST:

TONI J. TABER, CMC
City Clerk



Housing

Loan Commitment for Hawthorn Senior Apartments

City Council
April 30, 2024
Item 8.3

Kemit Mawakana

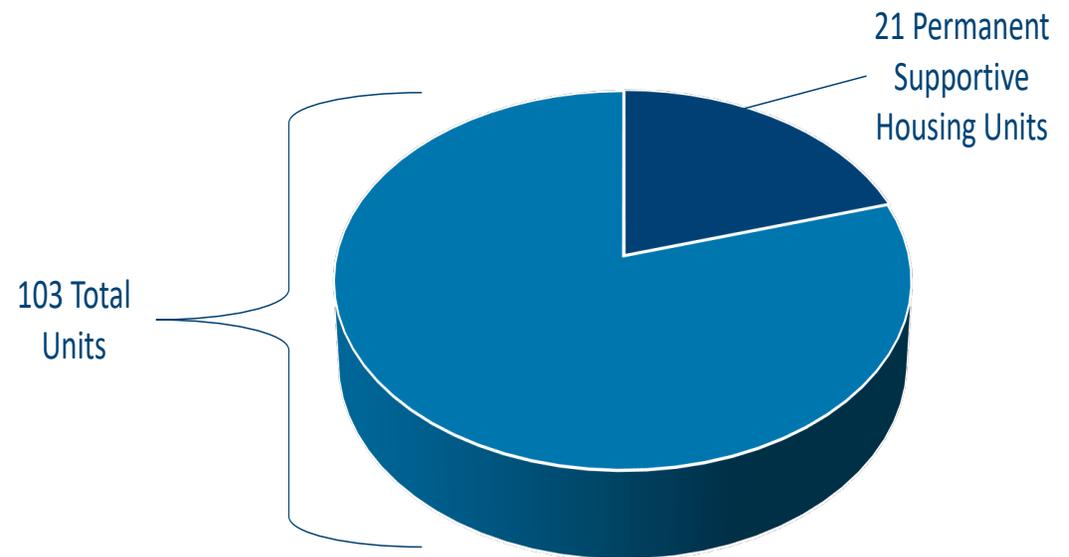
Division Manager, Housing Department

Banu San

Housing Policy and Planning Administrator, Housing Department

Overview

- Construction-Permanent Loan of \$15,150,000
- Hawthorn Senior Apartments: 103-unit** senior affordable housing development including **21 units** of permanent supportive housing



Project Description

- 🏠 1.1-acre site located at **118 and 124 North 15th Street**
- 🏠 Developed by **Santa Clara County Housing Authority (SCCHA)**
- 🏠 **4-story building**: 3 levels of residential units over an at-grade podium garage with 48 parking spaces
- 🏠 **103 total units**:
 - **101 affordable units; 2 unrestricted manager's units**
 - **51 units** for extremely low-income
 - **50 units** for very low-income senior households
- 🏠 **47 Project Based Voucher** assisted units
 - **21** permanent supportive housing units (housing for the formerly homeless)
 - Additional **26** units for extremely low-income households



Features

- 🏠 Community room for resident programming – educational classes, workshops, social activities
- 🏠 Courtyard
- 🏠 Bicycle storage room
- 🏠 Partnerships with LifeSTEPS and Abode Services to provide residential and supportive services
- 🏠 Live-in aide accommodation
 - Three 2-bedroom units available for people who require a live-in aide
- 🏠 Located within one mile of Roosevelt Park, Roosevelt Community Center, San José High School, various healthcare facilities, and transit



Service Providers



	Residential services provided for all residents
	Employment and job training, educational classes, and life skills training
	Community building and social activities and service coordination
	Partnership with Second Harvest Food Bank, local churches, and the City of San José to distribute food in a Farmers Market style to residents



	Supportive services provided for the 21 permanent supportive housing units Services tailored to each residents' needs
	Promote self-sufficiency by collaborating on individualized care plans and providing linkage to resources including job training, health-care services, and transportation
	Weekly on-site grocery distribution, held in the community room, and external food resources such as Meals on Wheels



Sources of Funding

Source	Funding Amount	Entity	Type of Funding
Bank Loan	\$13,615,000	Private Lender	Loan
County of Santa Clara	\$19,550,000	Public	Loan
City of San José	\$15,150,000	Public	Loan
Private Equity Investment	\$20,046,855	Private Investment	Equity
Santa Clara County Housing Authority	\$20,552,881	Public	Loan
Total	\$88,914,736		



Partnership/Coordination

🏠 Developer Partner

- Santa Clara County Housing Authority



🏠 City Staff

- City Manager's Budget Office
- Planning, Building, Code Enforcement Department
- City Attorney's Office
- Housing Department



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