



CITY OF SAN MATEO

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Agenda Report

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TO: City Council

FROM: Drew Corbett, City Manager

PREPARED BY: City Manager's Office

MEETING DATE: May 15, 2023

SUBJECT:
4th and Railroad Parking Lot – Bespoke Development Term Sheet

RECOMMENDATION:

Review and provide feedback on the proposed Term Sheet for the public-private partnership Bespoke development project, which includes the City-owned parking lot at 4th and Railroad Avenue.

BACKGROUND:

The City is currently party to an Exclusive Negotiating Agreement (ENA) for the redevelopment of the City-owned surface parking lot located at 4th and Railroad Avenue, directly across the railroad tracks from the Kiku Crossing development. The ENA is with a three-party development team comprised of Prometheus, Harvest Properties, and Alta Housing (a non-profit affordable housing developer) and is intended to be in place throughout the entitlement phase of the project. The City entered into the ENA in October 2021 and has since been working with the development team to refine the project, now referred to as Bespoke, through the planning entitlement process. The Bespoke project completed the pre-application phase of its planning review and submitted their formal planning application in February 2023.

The Bespoke project will redevelop the entire block located between B Street and Railroad Avenue between 4th and 5th Avenues. The project includes 60-units of affordable housing, 150,000 square feet of office space, 12,000 square feet of retail space, and approximately 4,500 square feet of community space intended for Self-Help for the Elderly. A shared underground parking garage will be built across the site which will include 38 residential parking spaces and 80 commercial spaces.

As the project has evolved, so have the deal terms related to the City's provision of land and funding support for the affordable housing component of the project. This report is intended to provide the City Council with an update on the project status and to get Council feedback on the proposed deal terms as outlined in the Term Sheet, included as Attachment 1. In addition to the Term Sheet, the development team has provided a letter outlining their commitment to the project, included as Attachment 2.

Developer Selection History

The City Council adopted a resolution declaring the surface parking lot at East 4th Avenue and South Railroad Avenue, known as the Talbot's parking lot, as "Surplus Land" at the January 4, 2021 City Council meeting. Following this declaration, staff released a Notice of Surplus Lands Availability to all housing developers that have registered with the State Department of Housing and Community Development (HCD). In response to this notice, the City received four letters of interest for the development of affordable housing on the site.

The City requested that the interested parties respond with a proposal responding to the following criteria:

1. Develop an 100% affordable housing project featuring a range of unit sizes from studios up to 3-bedrooms. Project should accommodate a mix of incomes and age ranges.
2. Maximize the number of units that can be accommodated on the site by building a 7-story project.
3. Provide a ground floor space that can be used by the non-profit Self-Help for the Elderly. It can be assumed that they can contribute some amount to rent, but not likely a market rent, such as would be charged to a retailer. They will also provide some funding for their own tenant improvements.
4. The City will contribute the land for the project in the form of a long-term ground lease.
5. Specify the expected ask of financial assistance for the affordable housing from the City. It is expected that the development team will minimize the City's financial assistance to the best possible extent by applying for multiple outside sources of financing.
6. Indicate if the development team would consider trying to acquire the parcels immediately fronting the Talbot's parking lot along B Street for a larger development site.

The City received three responsive proposals based on these criteria. After going through an evaluation process, on July 19, 2021, the City Council directed staff to negotiate an Exclusive Negotiating Agreement (ENA) with the Prometheus/Harvest Properties/Alta Housing team to explore the redevelopment of the City's parking lot site. The City Council subsequently approved the ENA at the October 4, 2021 meeting.

The development team was selected based on a few critical factors that set their proposal apart from the other others. First and foremost, they were the only team that was willing to consider acquiring additional parcels. They were already under contract for the former Talbot's store site and were willing to explore acquiring the remaining two parcels on the block. If those two parcels were left out of the development, there would be an abrupt transition between the one-story buildings on B Street and the 7-story affordable building immediately behind them. In addition, one of those parcels had easement rights across the City's surface parking lot in order to access their parking stalls in the back of their building. Maintaining this access would have been a major challenge. In addition, the development team proposed a mix of unit sizes that make the project family friendly, offered the highest ratio of on-site parking for the housing, and served income levels up to 70% of Area Median Income (AMI) which addresses the Council's interest in serving both low- and middle-income households.

Since entering into the ENA the project has evolved from the original development proposal. The development team was successful in acquiring development rights to all of the parcels on the block. This resulted in an increase in the office square footage from the initial proposal of 118,000 square feet to 150,000 square feet. Additionally, they were able to increase the number of affordable housing units from the original proposal of 52 to a total of 60. And finally, to address concerns about the availability of parking for the residents, the developer is proposing to offer shared parking where the residential units can access a portion of the commercial spaces during non-business hours.

The development team has met all of their obligations under the ENA to date and is currently ahead of the proposed schedule of performance in the ENA. The project is expected to be before City Council for approval of their final entitlements in early 2024.

Key Deal Terms

The Term Sheet summarizes the key deal terms for the public-private partnership. These terms will form the basis of the Disposition and Development Agreement that the City and developer will enter into at the time that the project receives its entitlements. A summary of the key project terms is as follows:

- The development team will enter into 99-year ground leases for the City's parcel at the rate of \$1 per year.
- The City's parcel will be divided into two separate ground leases, with 13,320 square feet of the parcel being used for the affordable housing and 3,170 square feet being used for the commercial development.
- The City will contribute \$2.75 million to support the construction of the affordable housing from the City's

dedicated affordable housing funds. The specific source of funds from within the City's housing funds is still to be determined.

- The development team will contribute \$2.9 million to support the construction of the affordable housing.
- The development team will finance and construct the shared underground parking garage across the entire site and create separate pads for the development of the affordable housing building and the commercial building. The commercial building will cover the full cost of the construction of the parking garage, including the spaces dedicated to the affordable housing.
- The development team will provide ground floor space in the affordable housing building at a substantially subsidized rent to Self-Help for the Elderly to allow for their relocation from the Central Park Recreation Center, which will be necessitated by the implementation of the Central Park Master Plan.
- In order to allow for the construction of the underground parking garage and the various site ownership mechanisms, the development team will use a lot tie agreement to allow for development across parcel lines.
- Due to the construction readiness requirements of affordable housing financing, the underground parking garage must commence construction prior to the affordable housing project applying for funding. As a result, the commercial component is likely to be completed prior to the housing. The length of this differential between the completion of the commercial and the affordable housing components of the project will depend on whether the affordable housing has to go through multiple cycles in order to obtain construction funding from the typical affordable housing financing sources, including the federal tax credits.
- The project will be subject to prevailing wage and DIR registry requirements.

The majority of these deal terms have remained constant from when the development team was selected. The primary changes are that the City contribution for the affordable housing has increased from \$2.0 to \$2.75 million to provide financial assistance for the additional 8 units and the proposed use of the lot tie agreement to allow for the construction of the shared garage across multiple parcels. In addition, the extent of the City parcel that would be used to support the commercial development was not previously specified. Staff has requested that the development team explore the financial feasibility of using the full extent of the City parcel for affordable housing. This could result in an increase in the number of affordable units included in the project but will also likely require an increase in the City's funding contribution to the housing. In order to accomplish this, the development team will explore ways to preserve the commercial floor area ratio through design changes as well as analyzing the ability of the affordable housing project to obtain financing for the additional units.

BUDGET IMPACT:

The Term Sheet requests that the City commit our City-owned parcel to this project for a 99-year ground lease at \$1 per year and provide \$2.75 million to support the affordable housing development. This project will be subject to all of the City's development impact fees, including but not limited to traffic impact fees, commercial-linkage fees, and park impact fees.

ENVIRONMENTAL DETERMINATION:

This review of the Term Sheet is not a project subject to CEQA, because it is an organizational or administrative activity that will not result in direct or indirect physical changes in the environment. (CEQA Guidelines Section 15378(b)(5).) The proposed Bespoke development project will be subject to environmental review which is being completed through the entitlement process.

NOTICE PROVIDED

All meeting noticing requirements were met.

ATTACHMENTS

Att 1 - Term Sheet

Att 2 - Letter from Development Team

STAFF CONTACT

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