

## CHARITIES HOUSING

October 13, 2021

MEMORANDUM

TO: Whom It May Concern

FROM: Kathy Robinson

RE: Impact of Requirement to include Commercial Square Footage in 100% Affordable Housing Developments

**There are four primary impacts associated with the City of San Jose's requirement to include commercial square footage in 100% Affordable Housing Developments.** Using the Blossom Hill Road Senior Housing development (BH) as an example, these four impacts are summarized below.

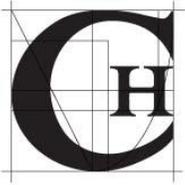
The 147-unit, 100% affordable senior housing development was required to include 16,000 SF of commercial space to replace the 32,000 SF warehouse style furniture store that was on the site. The funding sources to build affordable housing cannot be used to build commercial space. As a result, Charities Housing must fund the design and construction of the commercial space out of its own resources.

**1) Financial impact to the developer/owner related to construction of the building space and required parking.** To minimize the cost impact, Charities Housing is only building a cold shell for this 16,000 SF space at the onset. The cold shell only includes the exterior walls, and any structural components which are required to support the residential structure above. A concrete floor slab is not included. Fire protection will be installed for building safety prior to an occupancy permit being issued for the residential portion. Yet, even with these adjustments, the cost is substantial.

Commercial space also requires its own set of parking space. The number of spaces is calculated based upon the commercial square footage and the expected use; in the case of Blossom Hill, forty-four (44) spaces are required. Additionally, the commercial parking requirement, impacted the ability to have all of residential parking surface parked. Thirteen (13) residential spaces had to be located under the podium, which is a much more expensive option for providing parking.

***Altogether, the soft and hard cost associated with the commercial space is approximately \$2.1 million dollars.***

If and when a commercial tenant(s) occupies this space, they will be obligated to build out the balance of the mechanical, electrical, and plumbing systems and any tenant improvements as required by their specific needs. Given that there are vacancies in all four commercial shopping



## CHARITIES HOUSING

centers at the nearby intersection of Blossom Hill and Snell, it is not clear when/if this new commercial space will be leased up. It is also likely that Charities Housing will need to provide rent concessions, allowances towards the tenant improvement work as well as paying for brokerage commissions in order to get the space leased.

**2) Loss of affordable housing.** Providing this 16,000 SF of commercial space resulted ***the loss of at least another 25 affordable housing units*** that could have been included in the development – a huge opportunity cost in a time when affordable housing remains far too scarce in our community.

The loss of these 25 units (or ~17% of the development's total unit capacity) not only decrease the number of seniors we can serve, it **INCREASES** the per unit cost at the development. In fact, we estimate that forgoing these units in favor of commercial space drove up the per unit cost by ~\$61,000/per unit.

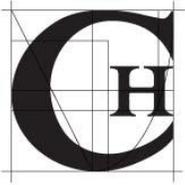
**3) Loss of “opportunity funding” to develop more affordable housing.** The funds being used to develop this commercial space come from a reserve established by Charities Housing. This reserve is funded from our annual operational savings over the past fifteen years. The intent of this reserve is to enable Charities Housing to quickly react when new development opportunities arise. The reserve is typically used to place deposits on new affordable housing development sites and pay for upfront due diligence. Charities Housing has even acquired new sites by using the reserve when necessary. The reserve has enabled Charities Housing to create a robust pipeline of new opportunities that will be built out over the next five to ten years, assisting the City in meeting its affordable housing production goals.

Having to contribute the \$2,100,000 described above to pay for the commercial space and parking in the Blossom Hill development, results in the potential loss of several additional new affordable housing opportunities that Charities could initiate. Alternatively, this also places a larger burden on the public funders who without this reserve, would need to be the source for this opportunity funding.

**4) Utilization of limited internal resources.** As a non-profit mission driven affordable housing developer Charities Housing is also utilizing our limited liquidity to build our internal organizational structure. Allocating this precious working capital and organizational human resource to commercial operations which we have very limited expertise and established systems and process, will distract us from the mission of developing and operating affordable communities.

Our Blossom Hill development provides a stark example of how the commercial requirements can have significant detrimental impacts on new developments. But sadly, this is not the worst-case scenario.

**In fact, taken together, the four impacts described above could make a prospective affordable housing development completely infeasible – as would the case with our proposed Driftwood Family Apartments.**



## CHARITIES HOUSING

### **Making New Affordable Housing Production Infeasible**

The Driftwood Family Apartments site is an assemblage of three parcels located at the corner of Driftwood Drive and Winchester Blvd. These sites are in the Winchester Blvd. Urban Village with an Urban Residential designation. This designation requires that *“the existing commercial square footage must be replaced with an equivalent commercial square footage in the new development, at a minimum”*.

The existing commercial square footage on the three parcels totals 15,987 square feet. The preliminary site design indicates the site can accommodate 100 affordable family apartments in a four-story building over parking on the ground floor without any commercial spaces. To create ~16,000 square feet of ground floor commercial space the 75 parking spaces currently planned on the ground floor would need to be relocated to an underground parking garage at a cost of approximately \$2.7 million. In addition, at least 10 affordable units would be lost. The added cost and loss of units, conservatively estimated, will drive up the cost by at least \$40,000 per unit. In addition, Charities Housing will need to come up with at least another \$2.5 million of its own resources to build the commercial space. This development is on hold until the decision on the requirement to include commercial space is resolved.