

295 S. Mathilda Avenue Affordable Housing Project City Staff Analysis of MidPen Housing Memo and Third Party Review

Following the September 2025 Council Study Session and October community meeting, City staff continued negotiations with MidPen Housing (MidPen) and commissioned a third party review by Economic & Planning Systems, Inc. (EPS), to evaluate options responsive to Council and the community.

MidPen's analysis focused on parking, building height, unit mix, target populations, and overall project feasibility and competitiveness for funding (included as Attachment 1 of Report to Council 26-0074). EPS' review of MidPen's analysis is included as Attachment 2 of RTC 26-0074. A summary of the MidPen memo, EPS' review, and City staff analysis is below.

Removal of the 25% Set-Aside for Unhoused Residents

MidPen Analysis

Staff requested that MidPen consider removing the 25% set-aside for individuals and households experiencing homelessness to assess its impact on project financing. The 25% set-aside for unhoused residents is a condition of the City's ENA and is not a requirement for other financing sources. Council may eliminate or modify the unhoused set-aside at its discretion. According to MidPen's analysis, eliminating the set-aside would reduce operating expenses and enable the project to secure approximately \$2 million in additional financing, thereby reducing MidPen's anticipated funding request by an equivalent amount.

EPS Review

EPS has no comments on the removal of the 25% unhoused set-aside.

City Staff Analysis

Although removing the 25% unhoused set-aside could reduce overall City subsidy, City staff recommends preserving it. The set-aside was an original component of the City's acquisition of the property and affirms the City's commitment to address homelessness. Furthermore, recent federal budget cuts will drastically reduce funding for supportive housing for unhoused persons. As currently proposed, the 25% set-aside would equate to 31 units for unhoused residents. This project remains a viable opportunity to provide this much-needed housing type.

Senior or Veteran Preference

MidPen Analysis

MidPen describes a strong and growing need for affordable senior housing in Santa Clara County. Due to the extremely low incomes of many seniors, 100% senior projects require ongoing rental subsidies, typically provided as project-based vouchers (PBV) through the Santa Clara County Housing Authority (SCCHA) and awarded via a notice of funding availability. Similarly, housing for unhoused veterans requires rental subsidies, typically provided through the Department of Veterans Affairs Supportive Housing (VASH) voucher program.

Recent proposed federal cuts could significantly reduce the expansion of both PBVs and VASH vouchers nationwide. For a 100% senior or unhoused veteran project to be viable, an alternative source of subsidy from the City would be needed. According to MidPen's calculations, the City would need to provide a \$44 million capital operating reserve in order to make the project financially viable.

MidPen also explored the viability of a 25% senior or unhoused veteran preference for the project. Both federal and California fair housing laws prohibit the age-based restriction of units. As a result, a senior preference for the project is prohibited. As for an unhoused veteran preference, there are no federal or state laws that prohibit such a preference. The preference, however, would require additional rental subsidies proportional to the \$44 million capital operating reserve required for a 100% unhoused veteran project. As a result, the City would be required to establish an \$11 million capital operating reserve to support a 25% preference for unhoused veterans.

EPS Review

EPS confirms that senior and veteran households have disproportionately lower incomes and that affordable rents for these populations are insufficient to cover operating expenses. Additionally, EPS verifies MidPen's assessment that there is no foreseeable availability of PBVs or VASH subsidies and that a senior project would not be viable without major additional rental subsidy from the City.

City Staff Analysis

The 2025 Point-in-Time Count showed that 28% of unhoused people in Sunnyvale were age 55 or older. Despite the strong need for affordable senior housing, City staff recognize that there is currently insufficient funding to make a 100% senior project a reality. City staff has independently verified with SCCHA that there are no plans to release a notice of funding availability for PBVs, and it is not feasible for the City to provide the required \$44 million operating reserve needed to make the project viable. As a result, staff does not recommend pursuing a 100% senior project at this time.

In contrast to senior housing, unhoused veteran housing has much lower need, largely due to the impact of targeted housing programs such as VASH. Veteran homelessness is at a record low nationwide and has also decreased at the regional and local levels. In fiscal year 2024-25, the number of veterans in Sunnyvale assessed by the Santa Clara County Office of Supportive Housing was fewer than 11. Based on the low need and high cost of subsidizing housing for unhoused veterans, City staff does not recommend pursuing such a project.

While a 100% senior or veteran project is not financially viable, seniors and veterans remain eligible tenants for the proposed project. A survey of affordable developments throughout Sunnyvale indicates that, of 1,834 housing units (in 100% affordable developments), 27% are reserved for seniors, and 36% of the non-restricted units include a senior household member, for a total of approximately 63% of units serving seniors. MidPen operates 11 affordable housing developments (935 units), of which 3

are senior-only (207 units). Approximately 47% of the non-restricted units include a senior member of the household, for a total of 69% of MidPen's units serving seniors.

Maximizing Smaller (One-Bedroom and Studio) Units

MidPen Analysis

During the Council Study Session, several Councilmembers expressed interest in increasing the share of smaller unit sizes, particularly studio and one-bedroom units, in the project. The current project as proposed contains no studios and 56 one-bedroom units (46% of total units).

MidPen believes that simply adding smaller units to the project may pose financing challenges due to the funding priorities of the Low-Income Housing Tax Credit (LIHTC) program. As with most 100% affordable housing projects nationwide, MidPen plans to compete for LIHTCs to provide the bulk of the project's financing. Affordable housing projects must compete for LIHTCs through the California Tax Credit Allocation Committee's (TCAC) competitive application process.

Tax credits are extremely competitive, and TCAC's application process is highly complex. TCAC requires projects to compete in specific categories, which include Large Family, Special Needs, Single Room Occupancy, At-Risk, Seniors, and Rural. MidPen believes that the 295 S. Mathilda project would be most competitive as a Large Family project. With the exception of the At-Risk category, Large Family is the only category that allows the project to receive an additional point for its location in a Highest Resource area, according to TCAC's 2026 Opportunity Area Maps. As a result, the Large Family category enables MidPen to leverage the project's location, creating a critical advantage for the project.

In order to be eligible for TCAC's Large Family category, a project must contain at least 25% three-bedroom or larger units and 25% two-bedroom units. The remaining units may be one-bedroom or smaller. MidPen's current proposal meets this requirement with 27% three-bedroom units, 27% two-bedroom units, and 46% one-bedroom units. MidPen does not recommend simply adding smaller units to the current proposal, as this would prevent the project from competing in the Large Family category. Nevertheless, there is an opportunity to replace some one-bedroom units with studios to increase the overall smaller unit count. MidPen has explored this concept as one of the four Proposal Alternatives for Council consideration.

MidPen notes that for most of their affordable housing projects, studio units have lower demand and higher turnover and vacancy rates than larger unit sizes. In MidPen's overall experience, one- and two-bedroom units are in highest demand.

EPS Review

EPS concurs with MidPen that the project is most competitive for LIHTC funding in TCAC's Large Family category. EPS also verifies that the project must contain a minimum of 25% two-bedroom units and 25% three-bedroom units in order to qualify as a Large Family project. A shift below these percentages would cause the project to be

ineligible as a Large Family project and would substantially reduce the financing competitiveness of the project.

City Staff Conclusions

Staff has included a proposal that includes studio units as one of the Proposal Alternatives for Council consideration. This proposal is for a five-story building that would replace 18 one-bedroom units with 24 studio units, resulting in a net increase of 6 units. This alternative offers a broader range of unit sizes and addresses Councilmember concerns, while remaining highly competitive for TCAC financing under the Large Family category.

Height and Parking Reduction

MidPen Analysis

To mitigate community concerns about building height, staff asked MidPen to investigate reducing the proposed building height from six stories to five while maintaining approximately the same number of units as the current project (122 units). This could potentially be achieved by increasing the number of smaller units and/or reducing on-site parking.

As noted above, MidPen does not recommend increasing the number of smaller units, as this would prevent the project from competing in the Large Family category, which is critical to the project's financing. Instead, MidPen believes the proposed project could be reduced from six to five stories while retaining the unit proportions required for the Large Family category. The resulting building would be five stories along Mathilda Avenue and three stories along Charles Street, with 102 units. Another option is to replace some one-bedroom units with studios, which would increase the number of smaller units, as discussed above. For a five-story building, this approach would yield 110 units. These five-story alternatives are included in the Proposal Alternatives for Council consideration.

MidPen raises concerns that the project would be less competitive due to the reduction in total unit count and the increase in cost per unit, both of which are important components of the TCAC tiebreaker score. However, if the City maintains the same level of funding as the currently proposed six-story version, MidPen believes the five-story alternatives would be roughly as competitive.

Due to strong concerns from many nearby residents, MidPen does not recommend removing any on-site parking and advises that any reduction in on-site parking be made up by nearby off-site parking. Additionally, MidPen believes the project would benefit from the proposed parking ratio of 0.53, given its proximity to downtown Sunnyvale and transit options.

EPS Review

EPS concurs with MidPen that a reduction in overall unit count could reduce the project's competitiveness for TCAC financing. EPS also confirms that a 0.5 parking ratio is a common and accepted ratio for affordable housing near transit, but notes

that a reduction in on-site parking could negatively affect the project's desirability.

City Staff Analysis

The five-story design alternative addresses community concerns about height and may help mitigate privacy issues for nearby residents. This height may also be more suitable for the surrounding community, matching the five-story height of the Maxwell, the adjacent multifamily rental project at 490 W. McKinley Avenue. Due to strong neighborhood feedback on parking, City staff also does not recommend removing any on-site parking to offset the loss of units. City staff has included two five-story alternatives in the Proposal Alternatives for Council consideration.

Building Height on Charles Street

MidPen Analysis

City staff requested that MidPen study reducing the height along Charles Street to 35 feet. As currently proposed, the project is three stories along Charles Street and slightly exceeds 35 feet. This request was made to make the building more appropriate for the surrounding single-family residences on Charles Street and to further mitigate concerns about height and privacy. MidPen has reviewed this request and can reduce the building height to no more than 35 feet along Charles Street without affecting costs, unit count, or financing. Future planning submittals for the project will include this lowered height along Charles Street.

EPS Review

EPS has no comments on the reduced building height along Charles Street.

City Staff Analysis

Staff notes that the current design proposal of ten inches higher than 35 feet in height on the Charles Street side includes a building setback 10 feet from the property line. Staff supports a revision to 35 feet.