



MEMORANDUM

To: Ryan Dyson, City of Sunnyvale

From: Teifion Rice-Evans and Kaavya Chhatrapati, Economic & Planning Systems (EPS)

Subject: 295. S, Mathilda Avenue Affordable Housing Project: Review of MidPen Memorandum in Response to City of Sunnyvale Study Questions; EPS #231105

Date: February 03, 2026

At the request of the City of Sunnyvale, Economic & Planning Systems (EPS) has conducted an independent third-party review of the MidPen Housing memorandum (MidPen memo) to City of Sunnyvale staff concerning the proposed 295 S. Mathilda Avenue affordable housing project. The MidPen memo provided responses to several questions from City staff concerning the effects of different potential changes to the project. The EPS review focused on the MidPen Housing responses discussing the financial implications of the proposed changes.

Overall Findings

The proposed project is a 122-unit, six-story residential development. The unit mix includes 50 percent one-bedrooms, 25 percent two-bedrooms, and 25 percent three-bedrooms. The ground floor of the project includes 65 parking spaces, providing an overall parking ratio of 0.53 spaces per unit. City staff posed several questions to the project developer that were primarily focused on the effects of:

- Changing the orientation of the project from family housing to senior or veteran.
- Changing unit mix by bedroom count.
- Changing unit count, project height, and/or parking counts.

Overall, EPS concurs with MidPen Housing that a shift away from the current family housing unit mix would reduce the project's competitiveness for the critical tax credit funding. Similarly, a reduction in the proportion of two- and three-bedroom units would change the project orientation away from family housing and reduce funding likelihood. Reductions in building height by one floor as well as reductions in the number of parking spaces could also reduce financial viability of the project, though the impacts would be expected to be less than the shift away from family housing. Changes in the project design would also increase pre-development costs. Because of the challenges assembling sufficient funding for new affordable housing development, from a financial perspective, EPS recommends minimizing changes to the proposed project.

Funding Affordable Housing Projects

Non-profit affordable housing projects typically rely on a broad range of funding sources to cover their full costs of development. Primary sources of funding can generally be grouped into four main categories:

- **Tax Credit Funding** – Federal and State tax credits often act as the largest funding source for affordable housing projects. Projects depend on their relative competitiveness to receive tax credits and move forward.
- **Net Rental Revenues** – While rental revenues are limited by affordability limits, many affordable housing projects rely on rental revenues to cover operating costs and to help support loan repayment/ debt service payments.
- **State Funding** – The State of California has competitive grant programs that are often relied upon to provide a substantial source of project funding.
- **Local Funding** – Even for those projects that are successful in competing for tax credit and State funding, a funding gap often remains. Many affordable housing projects rely on direct financial contributions as well as other types of support from local jurisdictions or other local partners to fully fund their projects.

As described below, the MidPen proposed project similarly relies on these four sources to cover its total development costs. The financial effects of the different project changes can be viewed in terms of their effect on any of these funding sources. To the extent the project changes either reduce the competitiveness for certain funding sources (e.g. tax credits, State funding sources) or reduce funding from a specific source (e.g. rental revenues), a new funding gap would emerge. The project would then either not move forward or need for additional/ alternative funding to fill the gap.

Proposed Funding Plan

MidPen Housing provided data on the expected development costs, funding sources, and operational cashflow. This data provided a baseline for understanding the project development economics. As shown in **Table 1**, total development costs are expected to be about \$118 million representing a per-unit cost of \$967,000.

Table 1. Estimated Costs/ Uses of Funds (122-Unit Proposal)

Category	Amount (millions)	Percentage
Hard Costs	\$80.0	68%
Soft Costs	\$10.6	9%
Financing & Other	\$13.6	11%
Developer Fee*	\$13.8	12%
Total Development Costs	\$118.0	100%

*Developer Fee includes \$9.8 million that will be contributed back to the project and is not an additional cost to the project.
Source: MidPen Housing

While the \$967,000 per-unit cost is higher than the statewide average of approximately \$708,000 (Turner Center, 2023), it is consistent with Santa Clara County benchmarks for six-story, prevailing-wage construction. In high-resource jurisdictions such as Sunnyvale, per-unit costs frequently approach \$1.0 million due to structural complexity, prevailing wage requirements, and regulatory standards. In addition, the proposed project includes a higher proportion of two- and three-bedroom units, which increases average unit size and construction cost per unit (though aligns with funding requirements for family housing).

MidPen Housing also provided its expected funding strategy/ capital stack to cover the total development costs, as shown in **Table 2**. As shown, tax credit proceeds are expected to provide over 50 percent of the required funding, State funding sources (primarily AHSC) about 17 percent, loan proceeds about 9 percent, other sources (e.g. equity) 8 percent, and the City of Sunnyvale 11 percent. The City of Sunnyvale’s contributions also include the land which is not included in the total development costs but represents an additional City subsidy.

Table 2. Capital Stack/ Sources of Funds (Baseline 122-Unit Proposal)

Source	Amount (millions)	Percentage
Permanent Loan	\$10.2	8.6%
Tax Credit Proceeds	\$63.9	54.2%
State Funding	\$21.2	17.0%
City of Sunnyvale	\$12.8	11.0%
Other Sources	\$9.9	8.3%
Total Sources	\$118.0	100%

Source: MidPen Housing

MidPen also provided information on its operating cashflow that indicates the expected rental revenues, operating expenses, and net operating income available. As shown in **Table 3**, once the project is developed and occupied, annual effective gross income (primarily rental proceeds) is estimated at about \$2.7 million, total operating expenses at \$1.7 million, resulting in an annual net operating income of about \$1.0 million. This net operating income then covers the debt service on the permanent loan as well as the gradual repayment of other funders. As a point of reference, all of the per unit metrics are two to three times the national medians for LIHTC projects, reflecting the higher Area Median Incomes and costs in the San Francisco Bay Area relative to the nation as a whole.

Table 3: Operating Annual Cashflow

Metric	Project Baseline	Project Baseline per Unit
Effective Gross Income	\$2,692,623	\$22,071
Total Operating Expenses	\$1,714,289	\$14,052
Net Operating Income (NOI)	\$978,334	\$8,019
Replacement Reserves	\$61,000	\$500

Funding Implications: Change in Project Orientation

City staff is interested in understanding the viability of a potential change in project orientation from family housing to senior housing or housing for formerly homeless veterans. Tax Credit Allocation of California (TCAC) regulations require 4 percent Low Income Housing Tax Credit (LIHTC) projects to elect one housing type category for scoring purposes (e.g., Large Family, Senior, Special Needs). Projects are evaluated and ranked only against other projects in the same category and may not receive points in multiple housing type pools. For this and other reasons, a project of this size competing for State tax credits needs to be oriented around one category.

There are two primary reasons why Family Housing provides a financially stronger proposition with a greater likely to exceed in raising the required funding for project development as described below.

Competitiveness for State Tax Credits

As indicated in **Table 2**, tax credit proceeds, both State and federal, are a critical component of the capital funding strategy for this affordable housing project (as well as many others). An important characteristic of this project is that it is located in a Highest Resource Opportunity Area (HROA). TCAC allocates substantial points to projects that place low-income families with children in high-resource neighborhoods, consistent with State fair housing and Affirmatively Furthering Fair Housing (AFFH) rules. Large Family projects are specifically structured to capture these additional points through their minimum 2- and 3-bedroom unit requirements and targeting of households that support families with children accessing high-performing schools, parks, and services. In contrast, senior projects do not gain the same points advantage when in HROA's reducing their relative competitiveness for a crucial capital funding source.

Rental Revenues

As indicated in **Table 3**, achieving rental revenues that can cover both operating expenses and the debt service tied to a permanent loan is critical to the both the capital and operating funding strategies. In general, seniors and veterans have lower household incomes than family households and hence pay low rents. Senior households, particularly those on fixed social security or disability incomes, are disproportionately concentrated at the lowest end of the income spectrum. According to HUD CHAS (Comprehensive

Housing Affordability Strategy) data, over 50% of extremely low-income households ($\leq 30\%$ AMI) are either seniors or persons with disabilities. In Santa Clara County, senior renter households are highly concentrated at the $\leq 20\text{--}30\%$ AMI level. At these income levels, tenant-paid rent would be insufficient to cover the project's \$14,052 per-unit operating expense or contribute the ongoing debt service payments.

For projects where rental revenues are likely to be lower, access to rental subsidies becomes key to project viability. However, there is currently no foreseeable availability of Federal Section 8 Project-Based Vouchers (PBVs) or Veterans Affairs Supportive Housing (VASH) vouchers in the County. Without these federal vouchers, the project would not be financially viable without a major additional rental subsidy from the City.

Funding Implications: Change in Unit Mix

City staff is interested in understanding the viability of a shift in the unit mix towards studios and one-bedroom units. There are two primary reasons why this shift would weaken the financial viability of the project as described below.

Competitiveness for State Tax Credits

As described in the preceding section, the orientation towards Family Housing in the HROA location of the project provides an important competitive advantage in the pursuit of tax credits. To qualify as a Large Family housing project, at least 50 percent of the units must be two- and three-bedroom units, with a minimum of 25% two-bedroom units and a minimum of 25% three-bedroom units. As a result, any shift of 2- or 3-bedroom units to studio or one-bedroom units would remove the project's Large Family eligibility and reduce the funding competitiveness of the project.

Challenges with Studio Units

Studio units also often prove less strong financially than one-bedroom units meaning any shift towards studios is likely to reduce project viability. A core reason for this is a strong household preference for one-bedroom units that are seen as providing substantially more space for a relatively modest increase in relative rent. As a result, many households will wait until one-bedroom units become available with studios primary acting as the option for households with very low incomes ($\leq 30\%$ AMI). Studios that are aimed at households in the 40 – 60% AMI range (the household income necessary to pay rents to support the project economics) will therefore often experience lease-up challenges and/or higher turnover as households move to one-bedroom units as they become available. This in turn reduces net operating income and the ability of the project to cover operating costs and debt service.

Funding Implications: Unit Counts, Height, and Parking

City staff is interested in understanding the potential effects of changing the project design by reducing the project from six to five stories and/or adding more units by converting some of the ground floor parking spaces to residential development. While these changes would likely have a less significant impact on project financial viability than the other changes discussed above, there would still likely be a negative financial impact as described below.

Unit Count

State funding programs are extremely competitive and prioritize projects that deliver the highest number of units for the lowest public investment per unit. As a result, reductions in unit count and/or increases in costs per unit can affect project competitiveness for state funding programs, including State tax credits and the Affordable Housing and Sustainable Communities (AHSC) program. A reduction of building height by one floor would lead to a reduction in total units, all other things being equal. In addition, because some of the development costs are relatively fixed costs (e.g. pre-development, soft costs, site preparation), a reduction in project units would also likely result in an increase in average cost per unit.

Parking Spaces

The conversion of some ground-floor parking spaces to residential units could support an increase in the number of housing units or alternatively partially offset the loss of units from a reduction in building floors. Counter-balancing those potential positives, however, are the additional improvement costs to locate, separate, and build housing on the same floor as parking. In addition, a reduction in the number of parking spaces could affect the appeal of the units, potentially slowing the pace of lease-up and/or resulting in higher turnover. In EPS' experience, while lenders are generally receptive to reduced parking ratios, a ratio of 0.5 parking space per unit ratio is a common and accepted ratio for affordable housing projects in transit-accessible locations. These additional development costs and/or reductions in net operating income might more than counterbalance the benefits of the additional units.