Foster City to purchase new workforce housing

Deal would enable 22 units at Pilgrim Triton development

By Zachary Clark July 6, 2019

The Foster City Council is set to purchase a $7 million 22-unit housing development that for nearly a century will be reserved for city employees paying below-market-rate rents.

At a meeting July 1, the council unanimously approved a $50,000 deposit to open an escrow account for the workforce housing project, though it won't make a final decision on acquiring the property until the project is built. Developer Summerhill Homes has until Oct. 4 of this year to apply for building permits for the workforce project and then it has 30 days from the date the city issues a building permit to begin construction, which is expected to take about 15 months.

Per the development agreement, the city has the option to buy the development and the 0.6 acres on which it will sit for no more than $7 million.

"That's pretty advantageous pricing because the cost estimates at the time — and this is over a year ago when the budget was being looked at — for the construction of these units and sale of this land was somewhere between $12 million and $18 million depending on construction prices," said City Attorney Jean Savaree, adding that the development agreement also requires Summerhill to cover any construction cost overruns.

The workforce housing project is a component of a larger development by Sares Regis known as Pilgrim Triton Phase C, which was approved by the council last year and consists of 70 market-rate, for-sale townhomes in addition to the 22 workforce units.

Of those 22 workforce units, two are "very low" income, two are "low" income, 10 will be rented to those with "moderate" incomes and rental rates for eight of the units will be between 30% and 130% of area median income adjusted for family size, according to the report. A person earning $51,350 a year or a family of four making $73,300 a year qualifies as "very low" income while someone making $99,450 a year or a family of four making $142,100 a year count as "moderate" income.

According to the development agreement, the "very low," "low" and "moderate" income units will first be offered to eligible households with at least one member who works in Foster City while second preference is for classroom teachers employed by the San Mateo-Foster City Elementary School District, San Mateo Union High School District or the San Mateo County Community College District. The third preference tier is for people who live and work in Foster City, fourth preference is for people who live in Foster City, fifth preference is for people who work in Foster City and sixth preference is for people who are income qualified, according to the report.

"The likelihood of getting tenants in there is very high, we shouldn't have any problem," said City Manager Jeff Moneda, adding that there are no full-time city staff who qualify for the two "very low" income units while 38 employees would qualify for the "low" income units and 37 city employees qualify under the "moderate" income category.

Councilwoman Richa Awasthi said the workforce housing will "go a long way to attracting and retaining employees," among other benefits.

"It's a great start to offer these benefits for those who are not able to afford to live here, there are so many benefits of city employees living in the community they are in, it gives them the sense of belongingness, the firsthand experience of what it's like being a resident so when they perform their jobs they can take that into consideration," she said. "I can't even get started on the affordable housing for teachers, it will lead to a better quality of education overall, we've heard several stories of teachers not being able to afford living here and have had to leave."

Awasthi also said the development is "financially a no-brainer" and Mayor Sam Hindi agreed.

"At the end of the day the city will end up owning a real estate asset worth a whole lot more than we'll pay for it," he said.

If the council ultimately agrees to buy the $7 million property, it will pay for it with money from the city's capital asset fund, which currently totals about $40 million. Hindi said it makes better economic sense to invest $7 million from that fund into real estate rather than leave it in the fund, where it is currently earning 2.4% in interest.

"You have money sitting there earning such low interest compared to investing in a property that's going to appreciate," he said.

Councilman Sanjay Gehani noted the development will be reserved for city employees paying below-market-rate rents for 99 years no matter who owns the property and called for further discussion about whether the $7 million could be better spent on something else, for example the city's new rec center replacement.

"What else is coming up that we could use that money for without compromising the commitment to our community and to our staff?" he asked. "If we look at just the numbers we get our money back in 14 years plus some growth on the property, I get it. But if we talk about it in a broader sense, there are other variables at play here."

The council did not ultimately discuss in detail alternative plans for investing the $7 million because options such as the rec center were not on the agenda.

Hindi also noted that the $7 million will ultimately be repaid if the city chooses to buy the workforce development, adding that that money "is not going to be detrimental to what we might end up doing in the future, it's not going to deplete or put a big dent in the [capital asset fund]."

Gehani was ultimately persuaded by those points.

"If [the purchase of the workforce units is] not going to preclude us from doing something else I think it's totally fair," he said.

Net operating income for the workforce housing development will be $546,089 in year one and it will gradually rise each year, reaching the $1 million marker by year 40.