

Dear Sunnyhills Resident,

This purpose of this letter is to provide you with important information related to the continued affordability of Sunnyhills apartments.

As you are probably aware, in 2017, the Owner of Sunnyhills Apartments had proposed redevelopment of Sunnyhills Apartments. This would have resulted in the loss of 149 affordable units and displaced many Milpitas residents. In order to maintain these affordable units, the City negotiated a five-year agreement with the Owner which resulted in an extension of the U.S. Department of Housing and Urban Development (HUD) contract voucher program through February 28, 2023. In exchange, the City agreed to reimburse the Owner \$250,000 per year for the 5-year extension period, totaling \$1.25 million, to assist with costs associated with capital improvements and repairs of the property. The City also provided an additional \$200,000 in Community Development Block Grant funding for roof replacement.

The five year agreement was intended to be an interim solution while a long term affordability solution was pursued. Although the City met with the Owner six times in 2019, along with other potential affordable housing partners, there was no long-term affordability solution developed. The Owner only moved forward with the development of 44 new units on the property, which include 37 market rate units and 7 affordable units. This project is currently in the permit review phase.

In spring 2021, the Owner approached the City with a proposal for the City to continue funding affordability at Sunnyhills through a 5-year agreement with three renewal options of 5-year extension each, for a total of 20 years with funding of \$250,000 per year with a 3% annual increase. This request amounts to over \$6.7 million. No known sources are available for the City to fund this proposal.

Also, in spring 2021, the Owner notified Sunnyhills residents that as of March 1, 2023, the HUD contract that maintains the affordability of the 149 units will expire and the rules that keep their units affordable may no longer apply.

If the Owner chooses not to renew the HUD contract and a conversion from affordable to market rate housing occurs, the City wanted to ensure that the residents of Sunnyhills Apartments had resources and options to mitigate the impact of this action. To that end, City staff met with the local Housing Authority about a potential conversion from affordable to market rate units.

Information about potential scenarios and options for the residents was presented to the City Council on August 17, 2021. The full agenda report is included as an attachment and a summary of key points is described below.

Possible Future Scenarios for Sunnyhills

Since the City will not be able to provide ongoing funding to maintain affordability in the Sunnyhills apartments, the Owner could choose to pursue one of three possible scenarios as discussed below:

Scenario 1: Affordable units are retained without City funding

Scenario 2: Affordable units are converted into market rate units

Scenario 3: Units are demolished, and property is redeveloped by Owner or another entity

Scenario 1: Affordable units are retained without City funding

The Owner could maintain affordability at the site by either renewing the HUD contract or by selling the property to another entity that will maintain affordability. The Owner has until March 2022 to notify HUD if they intend to not renew the HUD contract and convert Sunnyhills to market rate housing. The Owner may sell the property to a qualified preservation entity that will maintain affordability, in accordance with AB 1521. The Owner may also choose to renew the HUD contract to retain the 149 affordable units and the consistent rent they provide. In this scenario, no additional actions will need to be taken by the City and there will be no impact to the residents at Sunnyhills.

Scenario 2: Affordable units are converted into market rate units

Should the Owner decide not to renew the HUD contract and convert the development to market rate units, the Owner must first follow the process outlined by AB 1521 and HUD. The Owner has already begun posting notices and appears to be aware of the requirements under AB 1521.

When a conversion from affordable to market rate housing occurs, the law provides tenant protections that include rental assistance with the right to remain at the property. Once it is determined that Sunnyhills will not be sold as a part of AB 1521, HUD will coordinate with the local Housing Authority, Santa Clara County Housing Authority, who will administer the process to provide each of the 149 occupied, affordable units, either a Tenant Protection Voucher or an Enhanced TPV prior to the expiration date of the HUD contract. Enhanced TPVs are for tenants that remain in place and standard TPVs for tenants that move from their apartment to a different housing unit.

A more detailed explanation of the timeline of events, Tenant Protection Vouchers, and Enhanced Tenant Protection Vouchers can be found in the attached staff report.

Scenario 3: Units are demolished, and property is redeveloped by Owner or another entity

Given the past discussions about redeveloping Sunnyhills and the age and configuration of the units at Sunnyhills, the Owner may determine that the highest and best use of the asset would be to demolish and redevelop Sunnyhills or simply sell Sunnyhills at a premium to another developer. While this is still a possible scenario, it may be unlikely in the near future due to the planned 44-unit development.

In the unlikely event that the units would be demolished, the residents occupying a subsidized unit would still receive a Tenant Protection Voucher from the SCCHA to retain their subsidy in a new unit. Same as the Tenant Protection Vouchers described above, the tenants would be able to take their vouchers to a new housing unit with rental assistance up to the Housing Choice Voucher payment standard.

The City has consistently expressed strong commitment to ensuring housing stability and affordability for the Sunnyhills residents. We want to ensure that you are well informed about your options and available resources and have attached the entire staff report, along with the full translation in Vietnamese, Chinese, and Spanish. If you have questions, please feel free to contact Housing@ci.milpitas.ca.gov.

Sincerely,

City of Milpitas