



DATE: September 15, 2020

TO: Mayor and City Council

FROM: Development Services Director

SUBJECT: Mission Crossing Project: Consider a Resolution Amending Conditions of Approval Associated with the Mission Crossings Project Which Involves Construction of 140 three-story Condominiums, a 93-room Hotel, and 7,225 Square Feet of Community-Serving Retail Located at 25501 Mission Boulevard and Berry Avenue, MLC, Holdings (Applicant) Meritage Homes and Manchester Hotels, Inc. (Property Owners)

RECOMMENDATION

That the Council considers the request from MLC Holdings and considers adoption of a resolution (Attachment II) memorializing a change to the project conditions of approval related to construction phasing due to the impacts of COVID-19 and provide direction to the applicant and staff as to next steps.

SUMMARY

The Mission Crossings project was approved in May 2017 and shortly thereafter the applicant and ownership began moving toward obtaining construction permits to complete the project. While the entire site has been graded and prepped for construction, the only vertical construction that has moved forward to date is construction of the residential units and the common open space/garden area. Per a condition of approval related to construction phasing, the residential component is tied to eventual construction of the hotel and commercial component. Unforeseen to the developer at the time of approval, and due to economic factors stemming from COVID-19, circumstances have made the construction of the hotel and retail infeasible at this time. This leaves many partially constructed residential units and an active partially completed construction site. The applicant is seeking relief from that phasing condition in exchange for exploring options, whether interim or permanent, to activate the project frontage along Mission Boulevard.

BACKGROUND

On May 9, 2017¹, the City Council held a public hearing to consider the project and adopted Resolution 17-057, which incorporated a Condition of Approval, #166, related to project phasing. Specifically, Condition of Approval #166 states:

The hotel/retail building pad shall be rough graded prior to the issuance of a certificate of occupancy for the first residential unit; the hotel/retail building shall be in vertical construction phase before a certificate of occupancy is issued for the 100th residential unit, and be completed prior to issuance of certificate of occupancy for the last residential unit.

Following City Council approval, MLC's affiliate, Meritage Homes, began remediation, demolition, and site development activities on the property, including grading for the future hotel site. In December 2017, Manchester Hotels, Inc. acquired the hotel site from Meritage and began the task of processing construction documents and other plans for the hotel through the City's Planning, Public Works, and Building Departments. In September 2018, Meritage broke ground on its first production homes and started construction of its model home complex. In December 2018, Meritage held a Grand Opening at Mission Crossing and began the sale of homes to the public.

Throughout 2018 and 2019, Manchester Hotels, Inc. completed the design approval process, ultimately culminating in the approval of construction documents for the hotel in December 2019. Following the approval of construction drawings for the hotel, in early 2020 Manchester began securing bids from construction trades and sourcing construction financing. As Manchester was in the process of securing a construction loan, the onset of the COVID-19 pandemic brought an abrupt halt to their plans. Manchester has now invested over \$4 million in its effort to develop a hotel on the Mission Crossings site but is unable to move forward due to the unprecedented economic challenges and uncertainty facing the hotel industry. Manchester, like much of the hotel industry, does not know when – or even whether – development of new hotels will be feasible given the crushing impact the pandemic has had on the hospitality industry.

At the same time, Meritage has continued building and selling homes at Mission Crossings, and new residents have begun moving into the community. Since opening for sale in 2018, Meritage has sold 82 homes at Mission Crossing. 60 of those homes are now occupied by new residents. The company has pulled building permits for 126 homes situated in 24 multi-unit buildings, all of which are currently under construction or complete.

DISCUSSION

MLC Holdings, on behalf of Meritage Homes and Manchester Hotels, Inc., approached City staff in July 2020 to discuss the issues with respect to compliance with the phasing condition associated with the project given the current economic impacts associated with COVID-19.

¹ <https://hayward.legistar.com/LegislationDetail.aspx?ID=3039011&GUID=19DEE31A-250B-4797-BEC6-FB8D230EB0C6&Options=&Search=>

They are requesting a modification to the condition of approval related to the construction phasing of the project as was approved by City Council. Given the uncertainties of the hotel market (Attachment IV), Meritage Homes is specifically seeking relief so they can finalize the residential buildings and units for which they have already pulled building permits (Buildings 1-4, 6-8, 10-12, and 14-27) and holding a total of 14 units within 3 buildings (Buildings, 5,9, and 13) (Attachment III), until such time as either a temporary or permanent plan for development of the Mission Boulevard frontage can be secured based on Council feedback.

Staff would propose a slight modification to the language as proposed by the applicant. The Condition of Approval could be modified to say the following:

The hotel/retail building pad shall be rough graded prior to the issuance of a certificate of occupancy for the first residential unit; Occupancy permits may be issued for all homes in the community except those located in Building Nos. 5, 9, and 13 (containing a total of 14 homes) as shown on the attached Site Exhibit. Issuance of building permits for Building Nos. 5, 9, and 13 may occur upon the earlier of (1) commencement of vertical construction on the currently approved hotel project (to include payment of all associated permit fees, estimated at approximately \$1 million) or (2) approval by the City of an alternate development program for the hotel parcel (whether interim or permanent) that offers a suitable community benefit or revenue-generating use. Occupancy permits for the units in Buildings 5, 9 and 13, may be granted after the alternative development program has been constructed and nearing final completion/occupancy.

Meritage Homes and Manchester Hotels, Inc., are not clear on what exactly they would propose for the Mission Boulevard frontage and are seeking City Council feedback. Some alternative solutions that have been discussed for the project frontage include interim uses such as a “pop-up” food court that would allow local restaurants and other merchants to expand their outdoor presence while indoor dining remains challenged; while more permanent uses could include a combination of affordable and market rate housing with dedicated community space. Interim uses such as the “pop-up” food court concept would allow for minimal site improvements, allow for site activation along the Mission Boulevard frontage while still allowing for eventual construction of the approved hotel and retail should the market bounce back. More permanent uses, such as additional housing units, inclusive of affordable housing, could be beneficial given the housing crisis, but will require more significant site improvements and would mean the approved hotel and retail would likely never be constructed here.

Staff and the applicant are seeking some general feedback from the City Council regarding the future development of the frontage and would recommend that a future work session with the Council Economic Development Committee be scheduled to further flush out development and any required entitlements necessary to execute an alternative plan.

ECONOMIC AND FISCAL IMPACT

Based on the Fiscal and Economic Impact analysis completed for the project, the

project was expected to result in an estimated annual net fiscal benefit to the City General Fund of \$672,000 per year, broken out as follows:

- The Transient Occupancy Tax would account for a large revenue source to the City in the amount of approximately \$400,000 per year.
- Given the estimated values on the construction of a multi-story hotel and residential housing units, the estimated net Property Tax to the City would be over \$185,000 per year (\$208,406 estimated minus \$23,000 existing).
- The project as currently proposed would result in an estimated annual net fiscal benefit to the City General Fund of \$672,000 per year.

However, with the loss of the hotel, the net fiscal benefit to the City will be significantly less. Some of this could be made up with interim commercial use of the site, but not likely the extent that would have been provided by the hotel.

STRATEGIC ROADMAP

This agenda item supports the Strategic Priority of Preserve, Protect & Produce Housing and Grow the Economy as it involves the creation of new housing units. This item is not specifically related to a project identified in the Strategic Roadmap. Staff is bringing forth this new item at the request of the developer and because of changes in the economic environment due to the impacts of COVID-19.

SUSTAINABILITY FEATURES

All residential units will be equipped with solar panels. The solar panels on the residential units will generate 280 kW of power. The approved and installed Urban Farm furthers the goals of incorporating productive use of open space areas and access to local fresh food, and the bio-retention areas will further efforts to prevent stormwater pollution. The residential portion includes one electric vehicle charging station and all garages will have the capability, as required by Code, to charge electrical vehicles. Bicycle racks for both the residential and commercial uses would serve the needs of people-powered commuters. Both measures contribute toward air quality by reducing vehicle emissions. The proponent is striving to be well above a 100-point score for Green Point Rating, with every unit being Energy Star rated.

PUBLIC CONTACT

A Notice of Public Hearing was published in *The Daily Review* on September 4 and all interested parties as well as owners and occupants of real property within 300 feet of the project site received notification of this public hearing. As of the writing of this staff report, no public comments have been received.

NEXT STEPS

Should City Council support the proposed amendment to the Condition of Approval related to construction phasing, the developer Meritage Homes will continue to finalize the residential units for which they have already pulled building permits so as not to create unsafe conditions for both existing and future homeowners in this community. The applicant will also continue to work with staff on a plan for developing and activating the Mission Boulevard frontage including holding a work session with the Council Economic Development Committee and obtaining any and all necessary entitlements for that change. Once a plan is in place and has support, the remaining building permits (Buildings 5, 9 and 13) can be issued and construction can commence on the remaining units.

Prepared by: Sara Buizer, AICP, Planning Manager

Recommended by: Laura Simpson, AICP, Development Services Director

Approved by:

A handwritten signature in black ink, appearing to read 'K. McAdoo', written in a cursive style.

Kelly McAdoo, City Manager