



DATE: November 2, 2020

TO: Council Economic Development Committee

FROM: Deputy City Manager

SUBJECT: Discussion of Mission Crossings Project Commercial Frontage

RECOMMENDATION

That the Council Economic Development Committee reviews the report and provides feedback on the proposal from the applicant.

SUMMARY

The Mission Crossings project was approved in May 2017 and shortly thereafter, the applicant and ownership began moving toward obtaining construction permits to realize 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. The disruption to the hotel development and financing markets due to the COVID-19 pandemic has resulted in the infeasibility of moving forward with the construction of the hotel and associated retail components of the project at this time. This leaves many partially constructed residential units and a potentially unsafe active construction site. At the November 2 CEDC meeting, the applicant will be proposing options for consideration in exchange for relief from the phasing condition and seeking CEDC feedback.

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

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

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 landing 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 Crossing 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 Crossing, 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.

On September 15, 2020, the City Council considered and denied the applicant’s request to modify the conditions of approval related to the phasing in order to allow residential construction to continue despite delays in the hotel and associated retail component. Council indicated that the project needed to move forward and that the phasing condition was the only way to ensure the entire project would be constructed.

DISCUSSION

MLC Holdings has since approached City staff to propose assurances and concessions in exchange for relief from the project phasing condition of approval so that they can finalize the housing portion of the development. MLC Holdings is proposing the following:

- 1) \$1 million paid to the City as unrestricted funds to address the potential loss of tax revenue from the delay of the hotel and retail portion of the project. They propose to have the funds delivered in connection with the final 40 certificates of occupancy for the residential component at approximately \$25,000 per unit.
- 2) The City to retain the \$5 million in improvement bonds being held for the residential component of the project until such time as construction commences on the frontage portion of the project, whether as the entitled hotel project or some other commercial development acceptable to Council.
- 3) Record a restriction on the front parcel requiring the parcel be commercial development. The property is currently zoned Mission Boulevard – Neighborhood Node with a Commercial Overlay, which does not permit residential development along the property frontage unless approved with a Conditional Use Permit. However, the addition of a recorded restriction could further ensure the frontage is ultimately developed as commercial development as desired by Council.

If supported by the CEDC, staff would work with the applicant to evaluate the appropriate way to memorialize the above proposal in a formal agreement among all affected parties. Subsequently, this agreement and the modification to the phasing condition of approval would be brought to the entire City Council for consideration.

As a secondary phase, the owners of both properties would have a vested interest in finding a way to move forward with commercial development on the frontage, whether as the originally approved hotel and retail or some other commercial development.

NEXT STEPS

Assuming the CEDC supports the applicant's proposal, staff would recommend continuing discussions with the property owners to craft an appropriate agreement to memorialize the details of the proposal that would then be brought to the City Council for consideration along with an amendment to the Conditions of Approval related to project phasing.

Prepared by: Sara Buizer, AICP, Planning Manager

Recommended by: Jennifer Ott, Deputy City Manager

Approved by:



Kelly McAdoo, City Manager