



City Council Report

Date: March 23, 2026

To: City Council

From: Candace Cannistraro, Deputy City Manager

Subject: Approving and Authorizing a Resolution for the City Manager to enter into an Option to Lease and Option to Purchase, Ground Lease and Option to Purchase, and Purchase and Sale Agreements for a Senior Affordable Housing Project Located in Downtown Mesa (City Council District No. 4)

Purpose and Recommendation

Staff recommends that City Council approve a resolution authorizing the City Manager to enter into an option to lease and option to purchase agreement, ground lease, and purchase and sale agreement for the development of approximately 0.92 acres of City-owned land located near the southwest corner of the intersection of University Drive and Center Street (APNs 138-59-029, 138-59-027, and 138-59-026) (collectively, the “Property”). The lease option would grant Developer an exclusive option to enter into a long-term ground lease for the Property for the development of a senior affordable housing project, which may be exercised only if Developer receives a Low-Income Housing Tax Credit program (“LIHTC”) award during the 2026 or 2027 LIHTC application cycles. If a ground lease is executed, it would require the Developer to maintain affordable senior housing on the Property for 50 years and would also grant Developer the option to purchase the Property during the term of the ground lease beginning at year 25.

Background

Helix Apartments, LLC (“Developer”) is an affiliate of Commonwealth Development Company, which has experience developing affordable housing developments across the U.S., including several in Arizona. In 2024, the City endorsed Commonwealth’s application for LIHTC with the State of Arizona for 62 units of senior affordable housing on the subject Property (“Project”). Commonwealth received favorable responses to the proposed Project during its community outreach. City HOME funds were also identified for the Project to provide gap financing and to earn additional points on the LIHTC application. Despite a strong application and favorable community response, the Project narrowly missed the LIHTC funding cutoff.

The Property in question is in an ideal location for senior affordable housing due to its proximity to the downtown senior center and transit. It is just off the northeast corner of the senior center in downtown Mesa, across a residential road, making traveling to the senior center easy and convenient for residents.

On November 5, 2024, City Council approved the purchase of the Property with a purchase price of \$2.1M. Federal funding was used for the purchase from the Neighborhood Stabilization Program (“NSP”). The City received NSP funding in 2009 and 2011. NSP was developed to address the negative impacts of foreclosures and vacant properties. During that time, in accordance with NSP requirements, the City purchased foreclosure and/or blighted properties with the NSP funding, renovated them, and resold them under market value to income-eligible individuals.

NSP has been inactive for many years, but there remained some program funding available. The remaining NSP funds were a combination of original funds and program income, for a total of \$1,920,268. The remaining funding of \$184,554 for the purchase of the Property was from a developer reimbursement of federal HOME Investment Partnership Program (“HOME”) dollars.

Discussion

Seniors are one of the fastest growing populations of homeless individuals. This opportunity allows the City to receive a public benefit in the development of much needed affordable senior housing by leveraging the Property’s proximity to the existing senior center for development of approximately 62 senior housing units that would have at least 50 years of affordability restrictions tied to the use of the Property. It should also be noted that, Commonwealth Development Company has developed a partnership with Aster Aging, located in the downtown senior center, to provide programming services for the Property residents.

If approved by City Council, the City would enter an option to lease and option to purchase agreement (“Option Agreement”) with the Developer. The Option Agreement would grant Developer an exclusive option to enter into a long-term ground lease for the Property (“Lease Option”), which may be exercised only if Developer receives a LIHTC award during the 2026 or 2027 LIHTC application cycles. Approval of the Option Agreement would provide the Project with a competitive advantage (additional points) in the LIHTC application process that is given to projects leasing land from a government entity. In addition, if Developer wants to apply for HOME funding towards the Project, the Property would also be required to pass an environmental review prior to exercise of the Lease Option, but that review would not be required if the Developer chose not to apply for the HOME funding.

The Option Agreement sets forth the material terms of the transaction agreed to by the City and Developer, including the terms of the Lease Option and certain minimum terms for the Ground Lease and Purchase Option (defined below). If the Lease Option is exercised, Developer and City would negotiate and enter into a ground lease for the Property (“Ground Lease”) that would include an option for Developer to purchase the Property, subject to certain requirements being met (“Purchase Option”), including the parties entering into a purchase and sale agreement for the Property whereby, if the terms are met, the City will sell the Property to Developer (“Purchase Agreement”).

The minimum material terms outlined in the Option Agreement to be included in the Ground Lease and Purchase Option are generally as follows:

- a. A 50-year initial lease term with an option for Developer to renew for an additional 25-year term.
- b. An annual rent of \$1,200 during the construction phase of the Project, increasing to \$23,999.88 upon issuance of a certificate of occupancy. It should be noted that an annual rate of \$24,000 is the maximum rent allowed by the Arizona Department of Housing for Developer to receive points for leasing the land from a governmental entity. The revenue received from the annual rent would help defray City's oversight costs regarding the Project. The annual rent would increase to fair market value if the lease is renewed for an additional 25 years.
- c. The Project must consist of 62 multifamily units for seniors with incomes between 30% and 60% Area Median Income, with affordable unit rents determined in compliance with LIHTC and HOME regulations.
- d. The City will waive up to \$100,000 in permitting fees. The waiver will not include any impact, capacity, water meter, or right of way fees. A fee waiver from a municipality provides extra points during the LIHTC application process.
- e. The Project units must remain affordable for 50 years, with the affordability period extended for any length of time for which the lease is extended (i.e. if the Ground Lease is renewed for the additional 25-year period, the affordability period will also be extended). This is significantly longer than the minimum LIHTC affordability of 15 years. Agreeing to a longer affordability period provides extra points during the LIHTC application process and ensures a longer public benefit in the provision of affordable senior housing.
- f. Developer has an option to purchase the Property at the fair market value of the land beginning at year 25. If the Property is purchased prior to the expiration of the 50-year Ground Lease term, the City would record a restrictive covenant against the Property to keep it affordable for the remainder of the guaranteed 50-year affordability period. If the Ground Lease expires without Developer exercising its Purchase Option, ownership of all improvements reverts to the City.
- g. Developer shall maintain a partnership with a social services agency that provides services to seniors residing at the Property.
- h. Developer shall comply with all LIHTC and HOME requirements with failure to do so constituting default under the Ground Lease.

If the Developer is not awarded LIHTC in the 2026 cycle, they retain the option to lease through the 2027 cycle. If Developer is awarded LIHTC, they are required by the State

to submit building plans to the City by December 31st of the award year and to begin construction by December 31st of the following year. If Developer is not successful in either the 2026 or 2027 LIHTC cycles, the Lease Option will expire, and the City will consider other options for the use of the Property.

Alternatives

Other options for the use of the land could be considered. Prior developers have considered this site for market rate housing and were not able to move forward and the site has been vacant for some time. The City purposefully acquired this site in the hopes of the development of senior affordable housing next to the senior center through a private/public partnership that would benefit the public.

Fiscal Impact

The fiscal impact is positive for the City; if the Lease Option is exercised, following the issuance of the certificate of occupancy for the Project, the City would receive \$23,999.88 per year in lease revenue for the term of the Ground Lease, which is in addition to the construction sales tax paid to the City during the construction of the site, and on-going utility sales once occupied. The City would also receive the fair market value for the land if the Purchase Option is exercised and, if it is not, ownership of the improvements would revert to the City.

Construction costs for development of the property and on-going operational costs are the responsibility of Commonwealth.

Coordinated With

City Manager's Office, Community Services, and the City Attorney's Office