Planning & Transportation Commission

Staff Report (ID # 11991)

Report Type: Action Items **Meeting Date:** 3/10/2021

Summary Title: NVCAP - Review Plan Alternatives

Title: PUBLIC HEARING: Recommendation on the Preferred Plan Alternative for the North Ventura Coordinated Area Plan

From: Jonathan Lait

Recommendation

Staff recommends the Planning and Transportation Commission review the North Ventura Coordinated Area Plan (NVCAP) draft alternatives and recommend a preferred alternative to the City Council.

Report Summary

The Planning and Transportation Commission (PTC) discussed the draft NVCAP plan alternatives on January 13, 2021 and made the motion to have staff return with modifications to Alternatives #2 and #3. This report responds to that motion. The report also summarizes the PTC's discussion and public comment during the December 9, 2020 and January 13, 2021 meetings on the draft alternatives.

Background

This section summarizes the PTC's review of draft alternatives from April 2020 to present. It also documents the PTC's motion at the most recent January 13th meeting. The alternatives, related outcomes (e.g., residents and jobs generated), and relationship to the Council goals, are reiterated in Attachment A.

Summary of PTC Review of Draft Alternatives

Over the past year, City staff and consultants conducted extensive research and community outreach to develop a set of alternative land use and transportation scenarios for the North Ventura planning area. This outreach included the Working Group, stakeholder meetings, and

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with the community at-large. The PTC reviewed the first draft of alternatives[1] on April 29, 2020 and requested changes to those alternatives considered.[2]

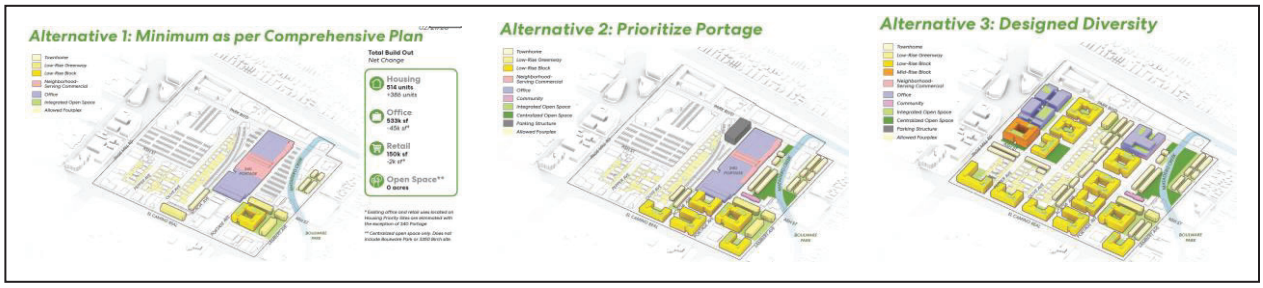

Figure 1: Snapshots of Initial Draft Alternatives (April 2020)

Following direction from the PTC, staff proceeded to work with the Working Group to reexamine the alternatives. The results of that collaboration are reflected in the three alternatives presented to the PTC on December 9, 2020 and January 13, 2021. At the December 9th meeting, the PTC took public comment and held a discussion that culminated in several questions to staff, and then continued the meeting to January 13th.

For additional information about the project, the alternatives, community engagement, and feedback on the alternatives, please see the following resources from the December 9, 2020 PTC meeting:

- Staff Report: https://www.cityofpaloalto.org/civicax/filebank/documents/79522
- Minutes: https://www.cityofpaloalto.org/civicax/filebank/documents/79847
- Video: https://midpenmedia.org/planning-transportation-commission-63-1292020-2/
- Public Comment: https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?BlobID=79571

For City staff's response to PTC comments, see the response to questions document presented to the PTC on January 13, 2021:

- Staff Response to Questions: https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?BlobID=79840
- Minutes: https://www.cityofpaloalto.org/civicax/filebank/documents/80165
- Video: https://midpenmedia.org/planning-transportation-commission-63-1132021/
- Public Comment: https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?BlobID=79889

[1] Draft alternatives: https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?BlobID=75521&t=65883.06
[2] Summary of PTC comments 4/29/20: https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?BlobID=76811&t=60539.31

PTC Motion

The PTC was generally concerned that only one of the draft alternatives presented was financially feasible (Alternative #3). Additionally, there was concern that this one financially feasible option generated an undesirably low amount of open space and below-market rate (BMR) housing. At the conclusion of the January 13, 2021, the PTC made the motion to consider the following modifications to the alternatives:

- Alternative #2:
  1. Determine the amount of public funds necessary to make the alternative financially feasible.

- Alternative #3:
  2. Increase the BMR housing by adding additional 5% BMR (to equal 20% total BMR), of which, the 5% is for very low-income households below 80% AMI; determine the amount of public funds necessary for the modified alternative to be financially feasible;
  3. Increase the amount of open space to at least the city-wide average (later identified by Parks and Recreation staff as 2.6 acres per 1,000 residents).

More than 30 public comments were received at the two PTC meetings. There was unanimous support for creating additional housing in the plan area, specifically for affordable housing and middle-income housing. Several speakers supported higher density residential housing to meet the region's housing need (Alternative 3), while some preferred low to medium density housing as in Alternative 2. No public commenters supported Alternative 1.

Other comments included:

- Support for finding creative solutions for financing affordable housing, middle income housing and prevention of displacement of existing residents from the plan area.
- Limited support for large floorplan office spaces, but greater support for small neighborhood-serving offices.
- Concern that too much development is proposed within the plan area and wanted more equitable distribution of growth throughout the city.
- Mixed support for retention of the cannery building; some preferred complete removal of the old cannery building for better and efficient use of the existing space. While few supported partial retention of the building.
- Support for more open space, stating there is a deficiency of existing open spaces in the plan area. The plan should meet the citywide goal of four acres of park space per 1,000 residents. There was a preference for one large neighborhood park within the plan area, in addition to small pocket parks and linear parks.
- Concern about cut through traffic in the area and advocacy for traffic calming measures and improved bike and pedestrian connectivity.

Analysis

The analysis below presents and evaluates the refinements to Alternatives #2 and #3 in response to the PTC motion. Strategic Economics, the economics consultant for the NVCAP, has responded to the financial elements of the motions in Attachment B. These results, along with the open space assessment, are summarized below.

Alternative #2 – Financial Feasibility: Public Subsidy

As detailed in Attachment B, Strategic Economics identified what it would take to transform Alternative #2 into a financially feasible alternative. The total funding gap is estimated at $130 million, for 1,620 units under the maximum buildout scenario (including market rate units). The funding gap for the multifamily condos is about $94,000 per unit. The funding gap for multifamily rentals is almost $83,000 per unit. This funding gap represents the shortfall for residential development only; it does not include other funding needs for infrastructure, parks, and other community benefits. If public sources were made available, this would be the per unit subsidy required.

The townhouse prototype is financially feasible and would not require subsidy. Therefore, in Alternative #2, the likely development response would be to build for-sale townhomes, even in areas that allow for greater height. Notably, townhomes tend to be the largest and most expensive of the prototypes in terms of sales prices.

Please note, the total buildout disregards the proposal for 85 townhomes at 200 Portage.

Alternative #3 – Expanding BMR Housing

Also detailed in Attachment B, Strategic Economics identified what it would take to increase BMR housing in Alternative #3 to set aside 20% of the units, instead of 15%. They concluded that Alternative #3 would allow for ownership development prototypes to set aside 20% of units for BMR households and still be financially feasible. This additional 5% increment of BMR units could target an additional 5% for low-income households (and 15% for moderate income households).

However, for rental projects the 15% inclusionary requirement represents the break-even point: 5% low and 10% moderate income set asides are equal to development costs and therefore represent the limit of what may be financially feasible. Because rental housing has a lower per unit value than ownership housing, it would not be able to support a greater percentage of BMR units onsite or a deeper affordability target.

Compared to Alternative #2, these BMR percentages work since Alternative #3 has significantly lower development costs per unit for all prototypes compared to the other alternatives. This is due to its lower parking requirement, which increases site efficiency and reduces construction costs. To conclude, no public subsidy would be needed for ownership units in this modified alternative, since it is still financially feasible. However, the rental units have a funding gap of

$37 million in order to achieve a 20% BMR set-aside, with a mix of very low (5%), low (5%), and moderate income (10%) units. This represents a shortfall of $20,000 per rental unit.

Alternative #3 – Ways to Increase Public Open Space

One of the City Council's adopted goals for the NVCAP is to align community facilities, such as parks and open space, with private development, recognizing both the community's needs and that such investments can increase the cost of housing.

There are several ways that cities can generate publicly accessible open space. Table 1 breaks these down into strategies for public property and strategies for publicly accessible private open space. It also explores how much parkland could theoretically be generated in the NVCAP planning area based on the amount of development assumed under Alternative #3. These ideas are illustrated in Figure 2 and Attachment C, which shows potential acreage by block and open space type.

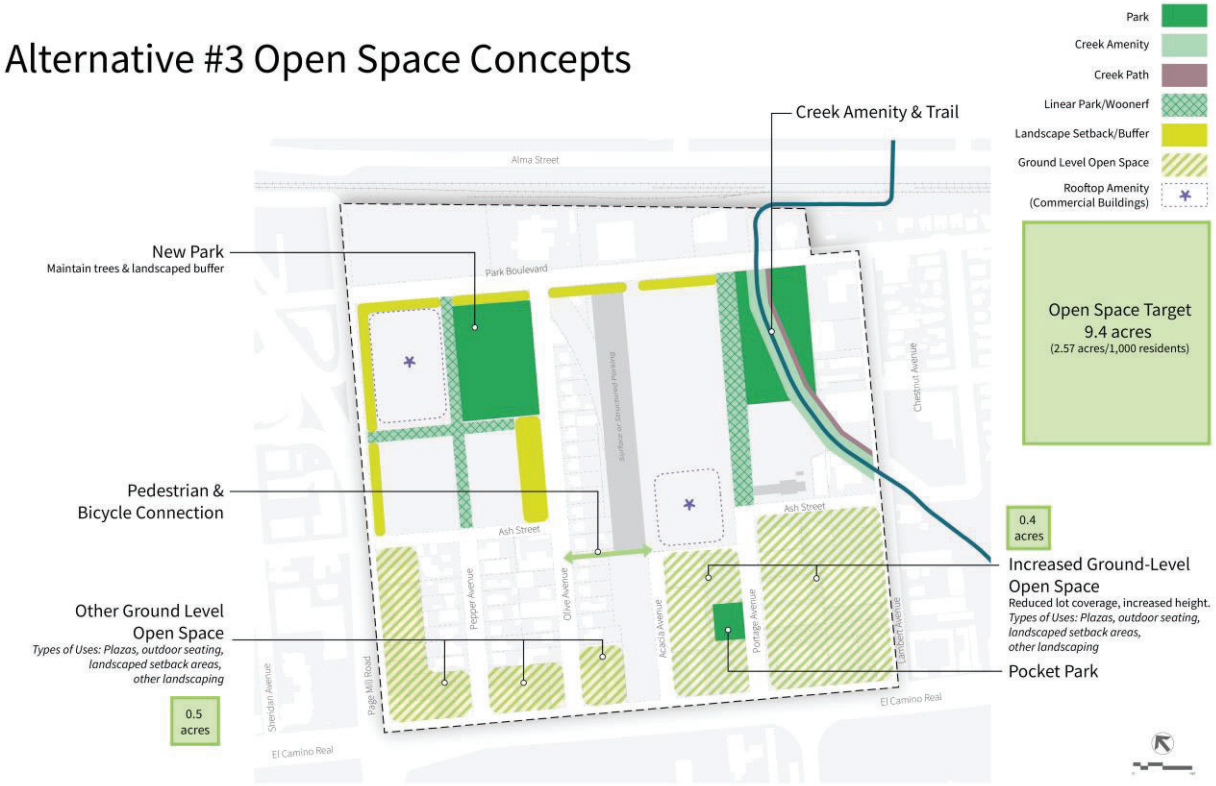

Figure 2: Alternative #3 Open Space Concepts

As noted in Table 1, one key idea is to increase ground-level open space by allowing taller buildings on the block bounded by Portage Avenue, Ash Street, Lambert Avenue, and El Camino Real. Under this concept, reduced lot coverage and increased height up to 8 stories, could allow for about 0.4 acres of additional ground-level open space in the form of plazas, landscaped setbacks, or similar ground-level publicly accessible open space.

The City has a parkland ratio of 2.57 acres/1,000 residents, based on the current population and park acres.[3] Alternative #3 would need to generate 9.4 acres of parkland in order to maintain this standard for the NVCAP. If the 200 Portage project moves forward with 85 units (and no redevelopment of the remainder of 340 Portage site), Alternative #3 would need to generate 6.3 acres to maintain the current ratio.

Table 1: Methods to Increase Open Space in Alternative #3

	Method	*Opportunities*	*Challenges*	*Potential Acres*	
				With 200 Portage	*W/O 200 Portage*
Public /Quasi-Public Property	**Site Acquisition** City would acquire land to develop a public park	• Best chance for large open spaces • Potentially contiguous with existing open spaces or other community facilities	• With land values at $12 million/acre for vacant land, this option is expensive. • Development of the park relies on impact fees or General Fund. • Maintenance responsibility and expense falls on the City, which relies on the General Fund	n/a	n/a
	Linear Park/Woonerf City and/or private property would vacate the public or private right-of-way to operate as linear park and/or bike/ped path	• City already owns land in the case of public rights-of-way. • Creates linear parks with walking and biking connections	• Real or perceived impacts on traffic • Portage and Acacia are not public streets. • Actual street vacation would reduce vehicular circulation	1.87	0.87
	Creek Amenity Matadero Creek beautification and restoration concepts proposed by WRA	• Could be a beautiful natural resource and connection	• SCVWD does not own creek ROW. • Naturalization is expensive, estimated at up to $8 million	1.04	.52
Private Property	**Parkland Dedication** Private property that is dedicated for public access (example: Old Elks Lodge project)	• Precedent exists with current dedication requirements for subdivisions. • Potentially larger	• Potential barrier to development: may result in financially infeasible projects. • Need both a maintenance	3.78	2.82

[3] Recreation and Parks does not include Foothills Park in the calculation of acres per 1,000 residents.

	Method	Opportunities	Challenges	Potential Acres	
				With 200 Portage	W/O 200 Portage
		open spaces	agreement but also enforceable language in the Municipal Code. • Possible to have developer turn the land over to the City, though in practice the City has not done this		
	Bike/Ped Connection Create a linear park/ped-bike connection through from Olive St. to Acacia	• Completes street grid. • Adds a third north-south through-street in addition between El Camino Real and Park Blvd.	• Requires voluntary agreement by Olive St. property owner. • Requires redevelopment of private property, including likely demolition of an existing rental home	.08	.08
	Rooftop Spaces Utilizing private rooftop spaces for public access	• Maintains developable building envelope. • Does not compete with building for lot coverage/other requirements. • Views, seating, amenities • Implementation likely to create multiple opportunities more broadly spread out	• Access may be limited to certain hours. • Likely only feasible on non-residential buildings • Access considerations (e.g., signage, liability)	.68	.68
	Ground-Level Open Space and Landscape Buffers Require publicly accessible open space at the ground-level. Consider allowing taller, skinnier buildings to	• Allows for ground-level open space that could be accessible to the public • Incremental series of green spaces that	• Increases height of buildings to provide more area for open space at the ground level. • Smaller footprint buildings may not be feasible/more expensive to build.	2.72	2.36

	Method	Opportunities	Challenges	Potential Acres	
				With 200 Portage	W/O 200 Portage
	maintain developable envelope while freeing up ground-floor space (e.g., on Portage/Ash/Lambert Block)	provide visual and physical relief	• Disconnected series of small spaces		
	Creek Trail Long-term strategy for the City to develop a creek trail through a series of springing easements (1)	• Creek access • Limited impacts on private property	• Incremental strategy, • Requires voluntary agreement of private property owners. • Challenging for property owners of shallow sites	.24	.24
	Total			**10.41**	**7.57**

Notes: (1) An easement that comes into effect following a specified trigger. For example, the City obtains a public access easement from an interior lot abutting Matadero Creek, but the easement does not go into effect until public access is granted by another adjacent property.

Parkland Acquisition and Dedication

The City could explore acquiring parkland for the purposes of parkland development. Parkland dedication is potentially the most expensive option in the NVCAP area at roughly $12 million/acre for raw land, but could result in the largest acreage. This section explains the process by which the Parks Department dedicates land.

The City dedicates parkland through City Council adoption of an ordinance per the City Charter.[4] Upon dedication as parkland, use of the land remains for the purpose of park, playground, recreation, or conservation. The City has dedicated parkland through conversion of City-owned land, acquisition of land, and purchase of land. In the past 15 years, there have been five occasions creating parkland through land dedication.

1. In 2005, 13 acres of land adjacent the Pearson Arastradero Nature Preserve was purchased and added to the preserve.
2. In the following year, 2006, land was dedicated near downtown to become Heritage Park. The 2.4 acres of land was acquired from the developer of the adjacent home development.
3. Then in 2014, the City dedicated 7.7 acres of land the City already owned adjacent to Foothills Park.
4. This was followed by 36.5 acres of land near East Bayshore Road dedicated in 2017. This was also City-owned land and added to the Baylands Nature Preserve.

[4] https://codelibrary.amlegal.com/codes/paloalto/latest/paloalto_ca/0-0-0-26815

5. Most recently, in 2019, the City purchased 0.64 acres of land adjacent to Boulware Park (and immediately adjacent to the NVCAP planning area) and dedicated the land as parkland.

Although there have been opportunities on occasion, establishing new parks does not occur regularly, and as land value increases, opportunities to purchase land becomes more challenging. Development impact fees can be used toward acquisition and generally are spent on neighborhood parks within ½ mile of the project paying into the fund or a district park citywide. Construction of the park relies on impact fees or General Fund; maintenance responsibility and expense also fall on the City, which relies on the General Fund.

Response from Developers/Property Owners

City staff presented the Alternative #3 open space concept to several property owners in the NVCAP area to gather their feedback. At the time this report was published, staff had spoken with representatives from the Jay Paul Company, Lund Smith, and Tarlton Properties. In general, property owners were open to locating on-site publicly accessible open space. However, they articulated that the amount of open space requested, as a proportion of the land area under ownership, was generally too high to make for a feasible project. As a result, some suggested they may not redevelop at all. Additionally, some property owners had concerns about site security and marketability. For example, tenants may not want members of the public to have access to certain areas of private property. Providing some flexibility or incentive, such as additional height or density could help to increase the viability on the amount of open space requested, but is unlikely to resolve concerns about site access and security.

Discussion

The PTC is asked to consider the information regarding inclusionary housing, financial feasibility, and provision of parks in order to recommend a preferred alternative.

In regard to financial feasibility, staff recommend Alternative 3, as this alternative is financially feasible and can provide a greater number of inclusionary units. If the PTC selects Alternative 2, the PTC may consider reducing the parking requirements to 1 space per unit; such a reduction would mirror the development standards of Alternative 3 and reduce the cost per unit. Staff remain concerned that, because no office space can be expanded in Alternative 2, limited redevelopment may result. The public subsidy and financial feasibility calculations identified in the analysis above do not reflect the opportunity costs for a property owner to transition from commercial to residential uses. Namely, the loss of operating revenue from existing office and commercial uses, which generate greater net income than residential on a square foot basis.

Regarding open space and parks, the PTC is asked to recommend a combination of open spaces and parks that can achieve the desired amount of acreage per 1,000 residents.

The PTC may also make other adjustments to the preferred alternative. The decisions will be consolidated into a revised alternative presented to the City Council. Due to the time

constraints, staff request the PTC to make a recommendation at the March 10, 2021 meeting. The City must adopt a coordinated area plan by December 1, 2023. In advance of adoption, the environmental review must be completed along with other steps necessary to finalize the plan.

Environmental Review

The current action requested of the PTC does not represent a project under the California Environmental Quality Act (CEQA). The City anticipates that either an Addendum or Supplemental Environmental Impact Report to the Comprehensive Plan Final Environmental Impact Report (2017) will be the appropriate level of environmental review for the approval of the NVCAP. The level of environmental review depends upon plan development. CEQA scoping and analysis will begin next year.

The Historic Resources Evaluation[5] (HRE), prepared by Page & Turnbull in 2019, concludes that the 340 Portage site is significant at the local level for its association with the historic Santa Clara County cannery industry. Accordingly, the property is eligible for listing in the California Register of Historical Resources. As such, the property qualifies as a historic resource for the purposes of review under CEQA. If the NVCAP contemplates demolition of the 340 Portage building, the CEQA document will need to analyze the potential for a significant and unavoidable impact and the City Council would need to adopt a Statement of Overriding Considerations.

Public Notification

The Palo Alto Municipal Code requires publication of a notice of this public hearing in a local paper at least ten days in advance of the meeting. Notice of the PTC public hearing was published in the Daily Post on February 26, 2021, which is 12 days in advance of the meeting.

Next Steps

City Staff will bring the alternatives and the PTC's recommendation to the City Council for consideration and selection of a preferred alternative in Spring 2021. After Council provides direction on a selected alternative, staff will advise the consultant team to complete additional study and refinement of the preferred alternative.

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[5] HRE: https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?BlobID=79291&t=54966.14
[6] Emails may be sent directly to the PTC using the following address: planning.commission@cityofpaloalto.org

Attachments:

- Attachment A: NVCAP Alternatives & Buildout Table (PDF)
- Attachment B: Financial Analysis Memorandum of NVCAP Housing Alternatives (PDF)
- Attachment C: Open Space Concepts in Alternative 3 (PDF)

Alternative 1

Office/Light Industrial
Continuation of Existing Uses

Creek Restoration & New Park
Would require city bond or other type of public funds

Retain Office Building
Allow existing office to remain

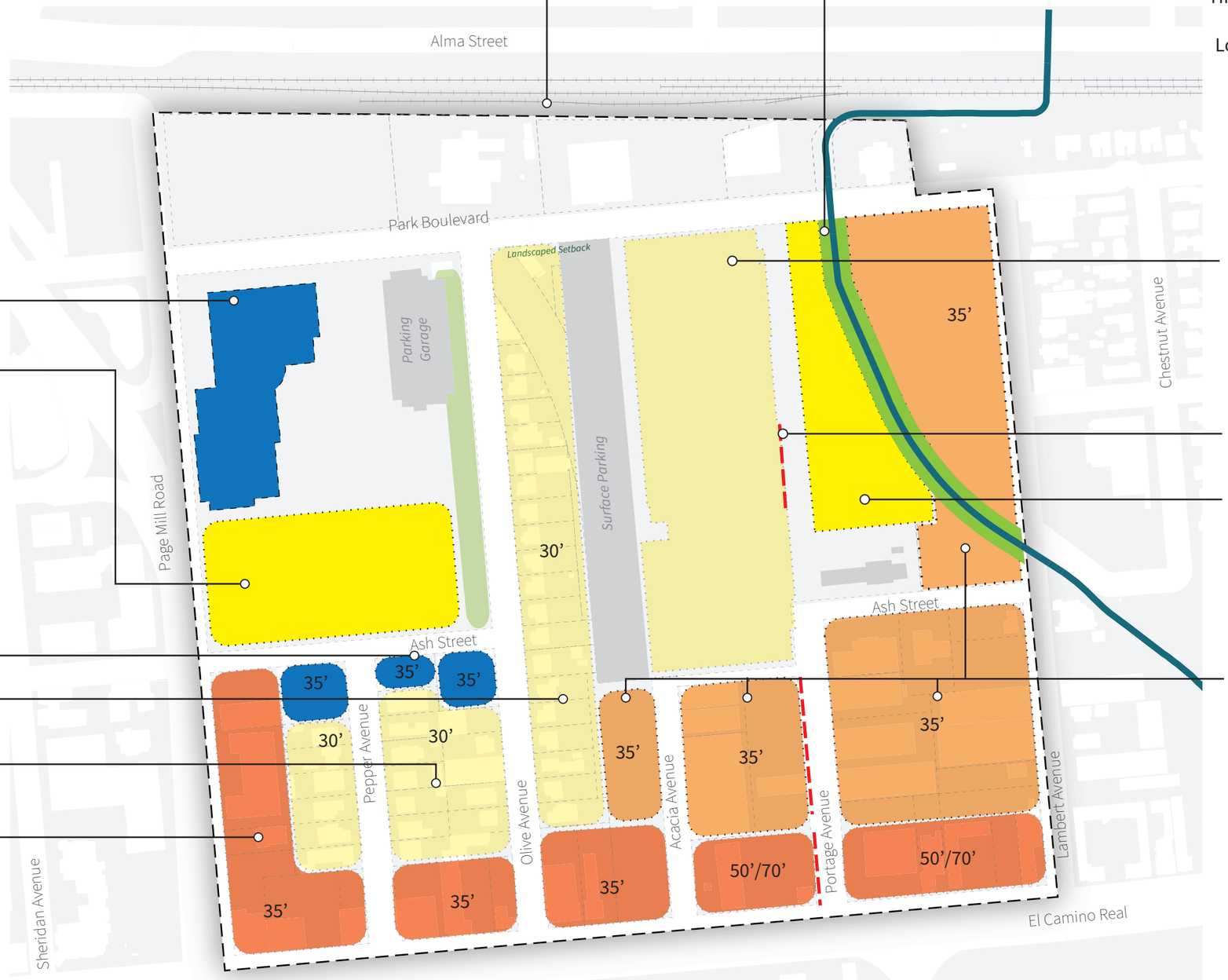
Allow multi-family residential (townhomes) up to 35’ on surface parking lots. Redevelopment unlikely under these conditions

Retain Office/ Industrial Designation

Duplexes
Rezone to R-2

Area of Stability
No change from current standards

Residential/Retail Mixed Use Corridor



Retain Cannery
Allow cannery to remain and permit multi-family residential (townhomes) up to 35’ on surface parking lots. Redevelopment unlikely under these conditions

Ground Floor Retail

Allow multi-family residential uses up to 35’ on surface parking

Mixed District*
Office & commercial remain until no longer in use; then converts to residential w/ ground floor retail if desired

Decrease height vs. existing zoning, but increase allowable FAR

- Office/Industrial
- Retail
- Higher Density Mixed Use
- Lower Density Mixed Use
- Higher Density Residential Use
- Lower Density Residential Use
- Park/Open Space/Plaza

Alternative 2

Office/Industrial
Retail
Higher Density Mixed Use
Lower Density Mixed Use
Higher Density Residential Use
Lower Density Residential Use
Park/Open Space/Plaza

Office/Light Industrial w/ Rezone Option
Can be redeveloped & rezoned to MFR

Creek Restoration & New Park

New Park
Maintain trees & landscaped buffer

Retain Office Floor Area
Up to 50’ w/small ground floor retail

New Mid-Rise Residential
50’ Height
Increased residential density (70 du/acre)
Creekside improvements required

New Mid-Rise Residential*
50’ with small office & retail
Repurpose Victorian office as community building

New Mid-Rise Residential
50’ w/ 70’ bonus
Height transition down towards Olive

Retain Office Floor Area*
Up to 50’ w/small ground floor retail
Maintain monitor roofs

Retain Office/ Industrial Designation

Four-Plexes
Assumes lot consolidation

Allow Duplexes

Residential/Retail Mixed Use Corridor

Mixed District*
Office may remain or be replaced.
Additional floor area would be residential

*Extra 5’ height bonus with ground floor retail

Ground Floor Retail

Alternative 3

Office/Industrial
Retail
Higher Density Mixed Use
Lower Density Mixed Use
Higher Density Residential Use
Lower Density Residential Use
Park/Open Space/Plaza

Office/Light Industrial w/ Rezone Option
Can be redeveloped & rezoned to MFR

Creek Restoration & New Park

New Park
Maintain trees & landscaped buffer

Expand Office Floor Area
Up to 50’ w/small ground floor retail

New Mid-Rise Residential
50’ Height
Increased residential density (70 du/acre)
Creekside improvements required

New Mid-Rise Residential
50’ with small office & retail
Repurpose Victorian office as community building

New Mid-Rise Residential
50’ w/ 70’ bonus
Height transition down towards Olive

Expand Office Floor Area
Up to 50’ w/small ground floor retail
Demolish 340 Portage

Retain Office/ Industrial Designation

Six-Plexes
Assumes lot consolidation

Mixed District*
Office may remain or be replaced.
Additional floor area would be residential

*Extra 5’ height bonus with ground floor retail

Allow Duplexes

Residential/Retail Mixed Use Corridor

Ground Floor Retail

DEVELOPMENT POTENTIAL

Land Use	*Existing Development*	*New Development*		
		Alt #1	*Alt #2*	*Alt #3*
Net New Housing Units	142			
Realistic Potential	-	500	1,170	1,490
Maximum Potential	-	860	1,620	2,130
New Office Commercial SF	744,000	8,600	33,300	126,700
New Retail Commercial SF	111,200	7,500	17,600	22,300
Parks and Open Space (approximate acres)	0	1.2	3.6	5.5
# of Potential Redevelopment Sites (Range = Realistic to Maximum Sites Turning Over)	n/a	16 to 23	37 to 41	37 to 52

METRICS BASED ON REALISTIC POTENTIAL

Metric	*Existing (Estimates)*	*Alternative #1*	*Alternative #2*	*Alternative #3*
Below-Market Rate Housing Units (assumes 15% of total)[1]	23	70	180	220
Residential Population	340	1,210	2,840	3,610
Office Jobs	2,460	30	110	430
Retail Jobs	200	10	30	40
Jobs/Housing Ratio (Housing Units to Support New Jobs)	170	50	180	580
Parks and Open Space (acres/1,000 new residents)	0	1.0	1.3	1.5

Relationship to City Council Adopted Goals

City Council Adopted Goal	*Alt #1*	*Alt #2*	*Alt #3*
1. Housing and Land Use: Add to the City's supply of multifamily housing, including market rate, affordable, "missing middle," and senior housing in a walkable, mixed use, transit-accessible neighborhood, with retail and commercial services and possibly start up space, open space, and possibly arts and entertainment uses.	✓	✓✓	✓✓✓
2. Transit, Pedestrian and Bicycle Connections: Create and enhance well-defined connections to transit, pedestrian, and bicycle facilities, including connections to the Caltrain station, Park Boulevard and El Camino Real.		✓	✓✓
3. Connected Street Grid: Create a connected street grid, filling in sidewalk gaps and street connections to California Avenue, the Caltrain Station, and El Camino Real where appropriate.		✓	✓✓
4. Community Facilities and Infrastructure: Carefully align and integrate development of new community facilities and infrastructure with private development, recognizing both the community's needs and that such investments can increase the cost of housing.			✓
5. Balance of Community Interests: Balance community-wide objectives with the interests of neighborhood residents and minimize displacement of existing residents and small businesses.	✓✓	✓✓✓	✓
6. Urban Design, Design Guidelines and Neighborhood Fabric: Develop human-scale urban design strategies, and design guidelines that strengthen and support the neighborhood fabric. Infill development will respect the scale and character of the surrounding residential neighborhood. Include transition zones to surrounding neighborhoods.	✓	✓	✓
7. Sustainability and the Environment: Protect and enhance the environment, while addressing the principles of sustainability	✓	✓	✓

STRATEGICECONOMICS

MEMORANDUM

To: Jean Eisberg, Lexington Planning
Clare Campbell, City of Palo Alto

From: Sujata Srivastava and Jesse Brown, Strategic Economics

Date: March 4, 2021

Subject: Additional Financial Analysis of NVCAP Housing Alternatives

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This memo report summarizes additional financial analysis of the preliminary land use alternatives for the North Ventura Coordinated Area Plan. The findings presented in this report are based on a pro forma analysis that was completed in January 2020 and builds on the conclusions from the "Financial Feasibility of NVCAP Alternatives" memo from November 2020. The previous analysis found that much of the residential development envisioned in Alternatives 1 and 2 were not likely to be financially feasible due to the height limits and parking requirements. However, the residential development types in Alternative 3 had a higher probability of being built and delivering community benefits.

The additional analysis described in this memo is meant to address the following questions:

- If the residential development envisioned in Alternative 2 is infeasible, what is the shortfall, or funding gap?
- Can residential development projects in Alternative 3 feasibly provide more than 15% of units at below-market rate rents or sales prices?

Key Findings

The total funding gap is estimated at $130 million for Alternative 2, assuming that each residential development prototype sets aside 15% of units for BMR households. This funding gap represents the shortfall for residential development only; it does not include other funding needs for infrastructure, parks, and other community benefits.

Alternative 3 has significantly lower development costs per unit for all prototypes, which would allow for ownership developments to set aside 20% of units for BMR households. This alternative can potentially result in a greater percentage of BMR units targeting a mix of moderate (15%) and low (5%) income households.

Alternative 3 can also allow for rental developments to provide 15% BMR units if they are targeted to a mix of moderate (10%) and low (5%) income households without subsidy. This generally represents a "break even" point. Because rental housing has a lower per unit value than ownership housing, it would not be able to support a greater percentage of BMR units onsite or a deeper affordability target without a source of subsidy.

For Alternative 3 to achieve the goal of setting aside 20% BMR units in rental developments, there is a funding gap of $37 million. The funding gap represents the shortfall of $20,000 per unit for rental

residential projects to set aside 20% of units to a mix of very low (5%), low (5%), and moderate income (10%) households.

Assumptions

BUILDING TYPES

Drawing on its previous analyses and the parcel buildout assumptions for the NVCAP alternatives, Strategic Economics developed assumptions regarding the building types that would be most likely to be under the proposed height limits. They are described in Figure 1 below.

As shown, the buildings in the areas with a 35-foot height limit are most likely to be townhomes, with up to two stories over an above-ground parking podium. Three-story (35 feet) multifamily condos and apartments are unlikely to be developed at this height limit, due to the cost of underground parking relative to the number of units that can be achieved on the sites and the parking requirements. Townhomes in the Peninsula and Silicon Valley markets are usually for-sale products.

In the 50-foot to 70-foot range, it is expected that the development would be a blend of multifamily rental apartments and condominiums. Based on recent development trends and the ownership of the key parcels designated for higher density multifamily housing, Strategic Economics estimates that 80 percent of these would be rental apartments, and 20 percent would be for-sale condominiums.

Under Alternative 2's maximum buildout assumptions, there could be 1,620 units, including 1,423 multifamily rental apartments, 64 townhomes, and 133 multifamily condominiums. Under Alternative 3's maximum buildout assumptions, there could be 1,856 multifamily rental apartments, 88 townhomes, and 185 multifamily condominiums.

FIGURE 1: MAXIMUM BUILDOUT BY UNIT TYPE FOR ALTERNATIVE 2 AND ALTERNATIVE 3

Prototype	Height Limit	Tenure	Alternative 2 Units	Alternative 3 Units
Townhomes	35 Feet	For-sale	64	88
Multifamily Rental	50-70 Feet	Rental	1,423	1,856
Multifamily Condominiums	50-70 Feet	For-Sale	133	185
Total Housing Units			1,620	2,129

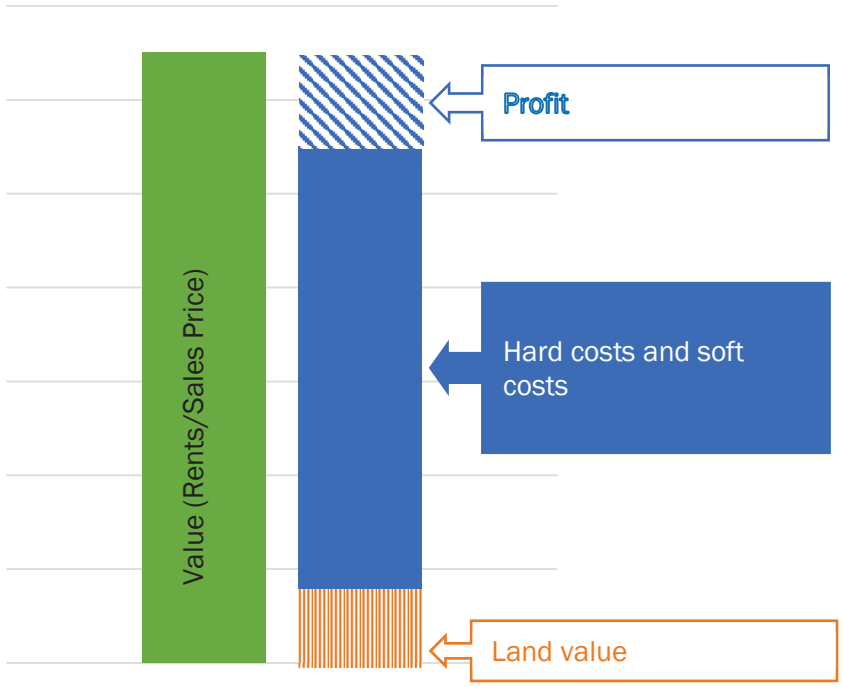
Source: City of Palo Alto, Strategic Economics.

DEVELOPMENT COSTS

Residential development costs include land costs, construction (hard) costs, soft costs (including city permits, architectural and engineering, and other fees), and profit. The profit expectations would vary depending on the financing sources specific to each project, but for the purposes of this analysis, Strategic Economics assumed that profit (return on cost) would be equivalent to 15 percent of the sum of the other development costs. The components of development costs, including profit, are illustrated in Figure 2 below.

To be considered financially feasible, the value of a project must be equal to or greater than the total development costs.

FIGURE 2: COMPONENTS OF DEVELOPMENT COST



Source: Strategic Economics

Strategic Economics calculated the per-unit development costs by prototype for Alternative 2 and Alternative 3. The value is calculated as the sales price for ownership units and as the capitalized value of the rental units.[1]

As shown in Figure 3 and Figure 4, the per-unit development costs are higher in Alternative 2 than Alternative 3 because of the amount of parking that is required. In Alternative 2, the parking ratio is 2.0 spaces per unit for larger units (townhomes and multifamily condos) and 1.5 spaces per unit for more multifamily rental units. In Alternative 3, the parking ratio is 1.0 space per unit for all unit types.

[1] The capitalized value for rental housing is calculated as the net operating income divided by the capitalization rate for multifamily properties.

FIGURE 3: DEVELOPMENT COST PER UNIT FOR ALTERNATIVE 2

Prototype	Townhome	Multifamily Condos	Multifamily Rental
	35 feet	50-70 feet	50-70 feet
Description	2-story townhomes with podium parking	4 to 6-story condos with underground parking	4 to 6-story apartments with underground parking
Total Units	18	119	170
Number of Market Rate Units	15	101	170
Number of BMR Units Required	3	18	0
Average Unit Size (in square feet)	1,600	1,000	700
Number of Parking Spaces	36	238	255
Parking Ratio (spaces/unit)	2	2	1.5
Development Cost per Unit	$1,212K	$1,083K	$742K

Source: Strategic Economics, January 2020.

FIGURE 4: DEVELOPMENT COST PER UNIT FOR ALTERNATIVE 3

Prototype	Townhome	Multifamily Condos	Multifamily Rental
	35 feet	50-70 feet	50-70 feet
Description	2-story townhomes with podium parking	4 to 6-story condos with underground parking	4 to 6-story apartments with underground parking
Total Units	18	119	170
Number of Market Rate Units	15	101	144
Number of BMR Units Required	3	18	0
Average Unit Size (in square feet)	1,600	1,000	700
Number of Parking Spaces	18	119	170
Parking Ratio (spaces/unit)	1	1	1
Development Cost per Unit	$1,153K	$936K	$668K

Source: Strategic Economics, January 2020

BMR UNITS

For Alternative 2, it is assumed that all residential development projects (rental and for-sale) would be required to set aside 15% of the units at below-market rate sales prices or rents. Currently, the City of Palo Alto requires 15% onsite inclusionary units for for-sale projects, and housing impact fees for rental projects.

For Alternative 3, Strategic Economics tested the financial feasibility of providing more than the current requirement for BMR housing.

- For ownership housing, Strategic Economics analyzed the potential for developments to provide 15% BMR units (current requirement) in Scenario 1. In Scenario 2 and Scenario 3, the alternative provides 20% BMR units onsite, including 5% low income and 15% moderate income units.
- For rental housing, Strategic Economics tested the potential for 15% BMR units onsite with different income targets. Scenario 1 has 15% BMR units with a mix of very low, low, and moderate income units. Scenario 2 also provides 15% BMR units but only for low and moderate income households. Scenario 3 sets aside 20% BMR units for very low, low, and moderate income households.

The Alternative 3 BMR scenarios are summarized in Figure 5 below.

FIGURE 5: BMR SCENARIOS FOR ALTERNATIVE 3

Prototype	Scenario 1	Scenario 2	Scenario 3
Townhomes and Multifamily Condominiums	15% Moderate	5% Low 15% Moderate	5% Low 15% Moderate
Multifamily Rental	5% Very Low 5% Low 5% Moderate	5% Low 10% Moderate	5% Very Low 5% Low 10% Moderate

Source: Strategic Economics

UNIT VALUES

The values of the market-rate units and below-market rate units are summarized in Figure 6 below. The weighted average of the units in each prototype under the various BMR scenarios are shown in Figure 7. Scenarios with a higher BMR percentage, or that target lower income categories, have a lower average unit value because of the limits on rents and sales prices for BMR units.

FIGURE 6: MAXIMUM SALES PRICES AND RENTS BY UNIT TYPE

	Townhome	Multifamily Condos	Multifamily Rental
	35 feet	50-70 feet	50-70 feet
80% AMI (Low Income)	$334,870	$278,724	$2,076
100% AMI (Moderate Income)	$450,950	$379,753	$2,643
120% AMI (Moderate Income)	$608,172	$516,803	$3,185
Market-Rate	$1,440,000	$1,150,000	$3,850

Source: Alta Housing, City of Palo Alto, Strategic Economics

FIGURE 7: WEIGHTED AVERAGE VALUE PER UNIT BY BMR SCENARIO

BMR Scenario	Townhome	Multifamily Condos	Multifamily Rental
	35 feet	50-70 feet	50-70 feet
Scenario 1 (15% BMR for ownership targeting Mod, 15% BMR for rental targeting VLI, LI, Mod)	$1,234,528	$989,250	$658,754
Scenario 2 (20% BMR for ownership targeting Mod, 15% BMR for rental targeting LI and Mod)	$1,182,035	$947,864	$668,150
Scenario 3 (20% BMR for ownership targeting Mod, 20% BMR for rental targeting VLI, LI, and Mod)	$1,182,035	$947,864	$647,674

Source: Alta Housing, City of Palo Alto, Strategic Economics

Conclusions

FUNDING GAP FOR ALTERNATIVE 2

In Alternative 2, the total development cost exceeds the value per unit for the multifamily condos and multifamily rental prototypes. The funding gap for the multifamily condos is about $94,000 per unit. The funding gap for multifamily rentals is almost $83,000 per unit. The townhouse prototype is financially feasible. Therefore, in Alternative 2, the likely development response would be to build for-sale townhomes, even in areas that allow for greater height.

The total funding gap is estimated at $130 million for Alternative 2, assuming that each residential development prototype sets aside 15% of units for BMR households. This funding gap represents the shortfall for residential development only; it does not include other funding needs for infrastructure, parks, and other community benefits.

Because there is a funding gap for multifamily residential building types, there is limited potential for Alternative 2 to provide additional community benefits contributions from residential development in the NVCAP area.

FIGURE 8: ESTIMATED FUNDING GAP FOR ALTERNATIVE 2

Alternative 2	Townhome 35 feet	Multifamily Condos 50-70 feet	Multifamily Rental 50-70 feet
Weighted Average Value per Unit	$1,234,528	$989,250	$658,754
Development Cost per Unit	$1,212,133	$1,083,385	$741,532
Gap per Unit	$22,395	($94,136)	($82,778)
Number of Units in Maximum Buildout	64	133	1,423
Funding Gap	n/a	($12,520,033)	($117,793,031)
Total Funding Gap			($130,313,064)

Source: Strategic Economics

POTENTIAL FOR ADDITIONAL BMR HOUSING IN ALTERNATIVE 3

Alternative 3 has significantly lower development costs per unit for all prototypes, which would allow for ownership housing to provide 20% BMR units onsite. This alternative can potentially result in the provision of at least 20% BMR units onsite, targeting a mix of moderate and low income households (Scenario 2).

Alternative 3 can also allow for rental developments to provide 15% BMR units if they are targeted to a mix of moderate and low income households. In Scenario 2, which would provide 15% BMR units (10% moderate and 5% low), the weighted average value per unit of $668,000 is equivalent to the development cost per unit, meaning that the projects would generally "break even." Because rental housing has a lower per unit value than ownership housing, it would not be able to support a greater percentage of BMR units onsite or a deeper affordability target. In Scenario 1, which would provide 5% of the units to very low income households, the development cost per unit of $668,000 exceeds the average value per unit of $659,000.

There is an estimated funding gap of $37 million for rental developments in Alternative 3 to provide 20% BMR units. As shown in Figure 10, achieving a goal of 20% BMR units for rental projects targeting very low, low, and moderate income households would require a subsidy of about $20,000 per unit. This represents the difference between the cost of developing a rental unit ($668,000) and the average value of the rental unit ($648,000). As noted above, the ownership products can feasibly provide 20% BMR units for moderate income households.

FIGURE 9: PER UNIT DEVELOPMENT COSTS, BY BMR LEVEL

	Townhome 35 feet	Multifamily Condos 50-70 feet	Multifamily Rental 50-70 feet
Development Cost per Unit	$1,153K	$936K	$668K
Weighted Average Value per Unit			
Scenario 1 (15% BMR for ownership targeting Mod, 15% BMR for rental targeting VLI, LI, Mod)	$1,235K	$989K	$659K
Scenario 2 (20% BMR for ownership targeting Mod, 15% BMR for rental targeting LI and Mod)	$1,182K	$948K	$668K
Scenario 3 (20% BMR for ownership targeting Mod, 20% BMR for rental targeting VLI, LI, and Mod)	$1,182K	$948K	$648K

Source: Strategic Economics

FIGURE 10: ALTERNATIVE 3, SCENARIO 3 FUNDING GAP (20% BMR FOR OWNERSHIP AND RENTAL)

	Townhome 35 feet	Multifamily Condos 50-70 feet	Multifamily Rental 50-70 feet
Weighted Average Value per Unit	$1,182,035	$947,864	$647,674
Development Cost per Unit	$1,153,134	$935,886	$667,783
Gap per Unit	$28,901	$11,978	($20,109)
Number of Units in Maximum Buildout	88	185	1,856
Funding Gap	n/a	n/a	($37,322,386)
Total Funding Gap			($37,322,386)

Source: Strategic Economics

EFFECTS OF COVID-19 ON HOUSING DEVELOPMENT

It is important to note that the feasibility analysis summarized in this report was conducted in January 2020 prior to the onset of the COVID-19 pandemic and does not account for the severe economic impact of the pandemic. There are some indications that the for-sale housing market, especially for single-family homes, has remained strong in the Bay Area. According to Costar data, the average rental rates in Palo Alto declined by eight percent from the end of 2019 to November 2020. Vacancy rates have also increased from four percent at the end of 2019 to eight percent at the end of 2020. Some of the reduced demand for market-rate rental housing could be attributed to Stanford University's decision to limit the number of students on campus during the academic year.

While the demand for rental apartments shows some weakness, construction costs continue to rise. Architects and developers report that the cost of lumber has increased by approximately 20 percent in the last year in response to the recent boom in home improvements and renovations.

There is insufficient data to confidently predict the timing of the recovery from COVID-19, and the long-term outcomes on the demand for market-rate housing. The need for housing is likely to continue, especially for workforce and lower-income households. However, it is not clear whether construction and land costs will continue to rise, and whether the demand for market-rate multifamily housing will return to the same levels that existed prior to the pandemic. The feasibility analysis shows that strategies to reduce the cost of construction for multifamily housing (such as parking reductions) and to create incentives for redevelopment will improve the likelihood of new housing development; this will continue to be the case if the demand for market-rate housing takes time to recover.

Alternative #3 Open Space Concepts

Park
Creek Amenity
Creek Path
Linear Park/Woonerf
Landscape Setback/Buffer
Ground Level Open Space
Rooftop Amenity (Commercial Buildings)

Open Space Target
9.4 acres
(2.57 acres/1,000 residents)

Creek Amenity & Trail

New Park
Maintain trees & landscaped buffer

Pedestrian & Bicycle Connection

Other Ground Level Open Space
Types of Uses: Plazas, outdoor seating, landscaped setback areas, other landscaping

0.5 acres

0.4 acres

Increased Ground-Level Open Space
Reduced lot coverage, increased height.
Types of Uses: Plazas, outdoor seating, landscaped setback areas, other landscaping

Pocket Park