

Baumb, Nelly

From: John Tarlton <JTarlton@tarlton.com>
Sent: Monday, September 21, 2020 2:22 PM
To: Council, City
Cc: Lait, Jonathan; Tanner, Rachael; Heather Young
Subject: Inclusionary Housing

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Mayor Fine, Palo Alto City Council members, Planning Director Jonathan Lait, and city staff –

As a second generation Palo Alto resident and owner/developer of mixed use and multi-family housing in the Palo Alto community I'd like to take this opportunity to comment on the 4 Options presented by Staff to provide Inclusionary Housing in Residential and Mixed-Use Housing projects under the new PC (Housing) Zoning.

Please accept my apologies that I am unable to attend the meeting tonight. I am currently travelling, and the meeting would be quite late for my current time zone.

Each Residential and Mixed-Use Housing project will be unique so providing options to meet Inclusionary Housing is a sound approach. While Options 1, 2, and 4 achieve the goal of adding to the diversity and supply of affordable housing, Option 3 is a significant disincentive to moving a project forward. As noted in the staff report, the margins for Rental Housing construction are very tight and the proposed requirement for 10% Very-Low Income units AND full payment of the Housing Impact Fee is a challenge. Although it might appear to meet the goal of increasing available housing stock and adding to the city's affordable income funds, it would likely result in neither. We respectfully request that this option be removed from the list or modified to be more in alignment with Options 1 and 2.

John

John C. Tarlton
President & CEO
Tarlton Properties, Inc.
+1.650.330.3600 Office



Baumb, Nelly

From: Amie Ashton <aashton@gmail.com>
Sent: Monday, September 21, 2020 12:34 PM
To: Council, City
Subject: Inclusionary Flexibility

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Honorable City Council,

I wanted to urge you to ensure that the City's inclusionary zoning requirements allow maximum flexibility with regard to development guidelines (parking minimums, height and FAR limits, as well as the ground-floor retail requirements) in order to make it feasible to construct deeply affordable (<60% AMI) homes.

Housing is the key to making our City economically and environmentally sustainable. The office landscape has changed for our City. All those workers may not come back for a very long time, if ever. To ensure the high-quality City services we have always provided our residents, we need housing - In particular housing that is dense, varied, and located near retail, transit, and services so as to bolster our tax base with full time residents who will spend money locally.

Thank you,

Amie Ashton
236 Middlefield Road

Baumb, Nelly

From: herb <herb_borock@hotmail.com>
Sent: Sunday, September 20, 2020 9:08 PM
To: Council, City; Council, City
Subject: September 21, 2020 Council Meeting, Item #8: Inclusionary Zoning and Item #9: Planned Home Zoning

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Herb Borock
P. O. Box 632
Palo Alto, CA 94302

September 20, 2020

Palo Alto City Council
250 Hamilton Avenue
Palo Alto, CA 94301

**SEPTEMBER 21, 2020 CITY COUNCIL MEETING, AGENDA ITEMS #8 AND #9
ITEM #8: INCLSIONARY ZONING
ITEM #9: PLANNED HOME ZONING**

Dear City Council:

Here is some background on the history of affordable housing; the City's reporting to the State of California regarding the City's Regional Housing Needs Allocation; and the expectations of developers.

History

The cost of housing is either "subsidized" or "market rate".

Subsidized housing is "low income housing" for households with 80% or less than the county median income for each family size.

Low income housing includes "very low income housing" (below 50% of county median income) that includes "extremely low income housing" (below 30% of county median income).

Market rate housing is divided into "moderate income" housing (80% - 120% of the county median income) and "above moderate income housing" (above 120% of the county median income).

"Affordable housing" is subsidized housing (i.e., low income) plus moderate income housing, which is a subset of market rate housing.

"Below Market Rate" (BMR) housing originally referred only to inclusionary moderate income housing in otherwise above moderate income market rate housing projects.

The inclusionary housing program was originally created as a requirement in multi-family developments where all of the land costs and soft costs would be attributed to the above moderate rate housing, while the cost of the BMR housing in a project was set to recover the additional direct costs of construction of the BMR housing without any costs attributed to land cost or soft costs of a project.

Thus, the market value of the land was based on how many non-BMR units could be built and sold. (Some projects were rental projects.)

The BMR program was established so that a developer did not make any profit on the inclusionary units.

BMR units were required to be the same size and distribution as the other units, although they did not have to have all of those units amenities.

At some time in the past twenty years, City staff with the uncritical support of the City Council began setting the price of BMR units based on the income of the future occupants so that developers started making a profit on the BMR units.

City Annual Reporting on Regional Housing Needs Allocation

Each year the City reports to the California Department of Housing and Community Development about how much housing the City has approved for each income level.

The City arbitrarily allocates all multiple family rental projects and all Accessory Dwelling Units (ADUs) as moderate income housing rather than above moderate income housing

I submitted a Public Records Act request and learned that one year all 16 units in the multi-family project at 441 Page Mill Road were arbitrarily allocated to moderate income housing, when only 5 of the 16 units were BMR housing. I believe that the other 11 units should have been shown as above moderate income housing.

Each year, the City has included all such projects units as moderate income housing when most of them should have been counted against the City's RHNA quota for above moderate income housing.

Former Planning and Transportation Commissioner Asher Waldfogel has presented to you an economic analysis that has not been contradicted and

that shows that ADUs are not "affordable" housing, so they must also be allocated to the above moderate income housing quota.

Once the above moderate income housing production in the City is properly calculated the City will shortly achieve its RHNA quota for that income level if it has not done so already.

Once that income level quota is met, it can't be used as a reason to impose certain requirements from the State.

Also, once that income level quota is met, the City can refuse to process projects with above moderate income level multi-family housing.

Developer's Frame of Reference

Former Mayor Larry Klein once said at a public meeting that if you define the question, you can win the debate.

These two agenda items have framed the debate in two ways.

First, you are told to assume a rate of return for projects to determine zone district regulations, when zone district regulations should be balancing the interests of land developers and the interests of citizens who are adversely affected by excessive development.

If the zoning regulations lead to a lower rate of return than what you are asked to assume, what are those developers going to do? Are they going to stop developing in Palo Alto and develop those projects in the communities they live in, including Atherton, Woodside, and Portola Valley, to get the rate of return they want?

Second, you are offered the option of including non-residential development in a Planned Home Zone if more housing is built, as if the two types of development will cancel each other out.

We all know from historical Journey to Work data from the decennial Census and from our own observations, that the overwhelming number of people who work here don't live here, but commute from somewhere else; and that the overwhelming number of employed people who live here don't work here, but commute to somewhere else.

Adding more housing in a Planned Home Zone project to justify including nonresidential development in the project is just another example of excessive development that will further impact our transportation network and our services.

Thank you for your consideration of these comments.

Sincerely,

Baumb, Nelly

From: Ellen Smith <ef44smith@gmail.com>
Sent: Sunday, September 20, 2020 3:54 PM
To: Council, City
Subject: Inclusionary Zoning Requirements

CAUTION: This email originated from outside of the organization. Be cautious of opening attachments and clicking on links.

In order to make Palo Alto a more vibrant, welcoming, and sustainable place for residents of every income level, we must pass policies that promote the construction of new affordable homes. If we cannot learn how to grow responsibly, we will become an increasingly isolated community, consisting of the elderly who have long been homeowners and the very wealthy who are making tech fortunes - or the state will intervene.

- 1) **Good inclusionary zoning policies allow for flexibility** in order to create the greatest number of homes at the deepest levels of affordability
- 2) **Palo Alto must adjust some of our zoning requirements**, like parking minimums, height and FAR limits, as well as the ground-floor retail requirement, in order to make it feasible to construct deeply affordable (<60% AMI) homes

We can do this while still providing for traditional single-family neighborhoods.

Ellen Smith
1469 Dana Ave

Baumb, Nelly

From: Ozzie Aery Fallick <ozzie.fallick@gmail.com>
Sent: Sunday, September 20, 2020 1:23 PM
To: Council, City
Subject: Inclusionary zoning

CAUTION: This email originated from outside of the organization. Be cautious of opening attachments and clicking on links.

Dear City Council members,

I'm writing to express support for inclusionary zoning policies ahead of the City Council's review on September 21st. I believe that inclusionary zoning is a powerful tool for addressing our housing shortage.

I'd like to urge the city council to ensure that our inclusionary zoning policies give builders the flexibility they need to contribute as well as possible to our housing supply. To that end, Palo Alto must be open to adjusting zoning requirements, such as parking minimums and height and FAR limits in order to make it feasible for builders to construct deeply affordable homes.

Thank you,
Ozzie Fallick
Mayfield resident

Baumb, Nelly

From: Palo Alto Forward <palo.alto.fwd@gmail.com>
Sent: Sunday, September 20, 2020 11:45 AM
To: Council, City; Fine, Adrian; Filseth, Eric (Internal); Cormack, Alison; Kou, Lydia; Tanaka, Greg; Kniss, Liz (internal); DuBois, Tom; Planning Commission
Subject: Comments on 9/21 Palo Alto City Council Meeting
Attachments: #9 - PHZ IZ 2020.pdf; #8 - IZ Changes 2020.pdf

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Please see Palo Alto Forward's attached letters for item #8 and #9 at the Monday, September 21st City Council meeting.

Best,
Angie

PALO ALTO FORWARD

September 19, 2020

To: Mayor Fine and City Council Members

Dear Mayor Fine and Palo Alto City Council Members,

It is imperative that we increase housing of all types to improve the economic and racial diversity of Palo Alto. We must welcome new neighbors by supporting policies that make housing more affordable. Palo Alto Forward has reviewed the staff and consultant report and supports the staff finding that construction costs matter to the feasibility of housing developments. Cost reductions can improve the likelihood that housing of all types and for all income levels can be built and are necessary if we wish to ask for higher BMR requirements in new housing projects.

The analysis indicates that most prototypes are unlikely to support an increase in BMR requirements without some zoning adjustments to decrease the costs of development. The analysis suggests, and staff supports, adjusting parking and ground-floor retail requirements to increase the likelihood that landowners and developers will pursue multi-family housing and BMR projects in various locations, including NVCAP. For example, adjusting policies to allow for residential parking in public garages and reducing the requirement to 0.25 parking spaces per unit would significantly change the feasibility of a multi-family proposal. The analysis suggests that adjusting these two variables can make more housing likely because it improves economic feasibility. In addition, we would like to see the Council and staff explore changing height limits to 65' and 3.0 FAR to accommodate for more homes.

We recognize the need and deficits in low to moderate income housing; this is an opportunity to take actions that are truly impactful. Please support policies to reduce the time and money it takes to complete these projects so that we can make the space we need for new neighbors.

Sincerely,
Gail Price, Board Chair
Palo Alto Forward

PALO ALTO FORWARD

September 19, 2020

To: Mayor Fine and City Council Members

Dear Mayor Fine and Palo Alto City Council Members,

As discussed in Item #8 on the September 21st City Council agenda, in order to create the greatest number of homes at the deepest levels of affordability we must allow for flexibility in our inclusionary policies. Palo Alto Forward supports offering landowners and developers a menu of options that reflect a 10-20% inclusionary zoning requirement. We also believe we must adjust some of our more onerous requirements, like parking minimums, height and FAR limits, as well as the ground-floor retail requirement, in order to make it feasible to construct deeply affordable (<60% AMI) homes.

While it is yet unclear how COVID-19 will impact the supply and demand of housing, we know that we've failed to construct enough homes to meet the need for decades. We expect a regional allocation of 9,850-10,500 new homes and we need to begin to consider how our policies can support the construction of these new homes.

Thank you for taking up this important issue.

Sincerely,
Gail Price, Board Chair
Palo Alto Forward

Baumb, Nelly

From: slevy@ccsce.com
Sent: Saturday, September 19, 2020 12:53 PM
To: Council, City
Cc: Shikada, Ed; Lait, Jonathan
Subject: Agenda item 8 on inclusionary requirement analysis

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Dear Mayor Fine and council members,

I support the staff and consultant finding that costs matter for the feasibility of all kinds of housing and that reducing costs can greatly improve the likelihood that we will achieve a goal all of us support--to increase the number of low and moderate income housing units in Palo Alto.

This finding is consistent with the testimony at the CASA (Committee to House the Bay Area) hearings, and the findings of the Turner Commission.

Both investors and lenders have rate of return requirements for investing in housing and these cannot be ignored or denied if we wish to increase our housing stock particularly if we wish market rate projects to include more low and moderate income units.

Council and staff have discussed and are familiar with cost reducing policies including lower parking and retail requirements, density bonuses, increased FAR and more speedy and certain approval processes.

Cost reducing policies are even more important in light of our greatly increased RHNA targets.

On Friday the ABAG RHNA allocation committee made their final recommendation to the board.

Palo Alto's allocation is 10,050 units with 2,570 very low income units, 1,480 low income, 1,670 moderate income and 4,330 above moderate income units.

Achieving these targets will be challenging but a first step is to adopt additional zoning and cost reducing policies to make a broader range of sites feasible for housing including BMR requirements in market rate projects.

I listened to all the committee proceedings and in the end there was broad agreement on allocating a high share of the regional RHNA target to cities like Palo Alto that provide access to high opportunity areas and proximity to jobs.

In the final round of discussion Friday Palo Alto's target varied only slightly from a low of 9850 units to a high of 10,100 units.

The committee's criteria are supported by a large body of research (much from Stanford) that low income families and children do better if they are able to live in high opportunity areas and the common sense finding that locating housing closer to jobs has environmental benefits and supports more family time.

I am sure staff has all the ABAG documents but I can send to anyone who wished them.

Stephen Levy

Baumb, Nelly

From: Dennis Martin <dmartin@biabayarea.org>
Sent: Friday, September 18, 2020 3:39 PM
To: Council, City
Subject: City Council Meeting 9.21.20 Item 8 Inclusionary Housing
Attachments: BIACommentsInclusionary_PaloAltoCC_9.21.20.pdf

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Greetings;

On behalf of BIA Bay Area, I respectfully request that the City Council consider the comments contained in the attached letter.

Thank you,

Dennis Martin

BIA Government Affairs

408-499-2739





September 18, 2020

Mayor Adrian Fine
City Council Members
City of Palo Alto, CA

TRANSMITTED ELECTRONICALLY

RE: City Council Agenda 9.21.20 Item #8. Inclusionary Housing Recommendations

Dear Mayor Fine and Council Members,

The Building Industry Association of the Bay Area (BIA) urges the Palo Alto City Council 1) maintain existing Inclusionary percentages and impact fees; 2) adopt the Staff recommendation to explore adjusting development standards for retail and parking on new housing projects; 3) abandon any attempts for the foreseeable future to increase BMR/Inclusionary percentages on new ownership and rental housing projects.

It is painfully obvious that the BMR Housing Program Analysis (Analysis) prepared for the City of Palo Alto by Strategic Economics has been invalidated because of the unforeseeable devastating effects of the COVID-19 induced real estate and economic downturn.

The Analysis relies on data, interviews, and assumptions reflecting market conditions as of June 2019 at the height of the region's rental and commercial real estate markets. For instance, market-rate residential rents in the Analysis are assumed to be comparable to pre-COVID 19 pandemic rental rates for multifamily rental developments in Palo Alto. The analysis assumes that market-rate rents will average \$3,575 per month for studio units up to \$4,600 per month for one-bedroom units.

However, according to a June 2020 article in the San Francisco Chronicle which references Zumper.com, rents in the mid-peninsula region are declining rapidly:

The cost of renting an apartment in the Bay Area plummeted in May, as layoffs and the increased flexibility of working from home drove a double-digit drop in some of the nation's most expensive housing markets.

Rents for a one-bedroom apartment dropped most in the cities richest in high-paying tech jobs, falling 9.2% in San Francisco compared with May of 2019. In Mountain View, home to Google, the price for a one-bedroom home dropped 15.9 percent in consecutive years in May. Facebook's home of Menlo Park saw a 14.1 percent tumble, while Cupertino and Palo Alto, home to Apple

and Tesla, saw prices plunge 14.3 percent and 10.8 percent, respectively, according to the rental search engine Zumper. In San Bruno, where YouTube has its offices, rents tumbled 14.9%.

According to a June 29, 2020 article published by Realtor.com, the Silicon Valley rental market is in a state of tremendous instability with rents in San Mateo County down nearly 10%:

The denser closer-in counties (San Francisco, San Mateo and Santa Clara) are seeing rents decline, with the median price per sq ft down 4-10% and 5-8% year-over year, for one and two-bedroom units respectively. Before the pandemic, rental communities along the peninsula and in close proximity to the big tech headquarters were benefiting from inelastic demand as shorter (often walkable/bikeable) commutes drew waves of high-earners into the area.

In just 6 months, the shift from office to work-from-home necessitated by the COVID 19 pandemic has employees rethinking all sorts of assumptions, including where they live. In a May survey of 2,800 tech workers in Northern California, New York City and Seattle, 66% said they would be willing to work remotely and relocate out of those urban areas. The survey, by the employee messaging app Blind, found that 20% of San Francisco respondents said they would be willing to accept a pay cut of up to 20% in exchange for being allowed to telecommute from a more affordable city.

The Analysis relies on assumptions, conditions, data, and information gained from interviews with local developers that are now superseded. Eviction moratoriums extended through at least the end of 2020 with thousands of tenants facing eviction in 2021 could not have been foreseen during the Analysis completion in 2019. Add to this uncertainty the near collapse of retail, restaurants, and personal services places extreme pressure on the housing rental market.

The worrisome economic conditions brought on by COVID-19 are well known to the City. Sales and hotel tax revenues have fallen precipitously and overall business activity has slowed markedly. Hotel vacancy is near 75% and unemployment is hovering at 15% statewide. With the exception of essential businesses, most in-person tech industry activity has ceased and, as announced by many high-tech firms, is not expected to resume until mid-2021, further suppressing vital economic recovery.

However, even if the effects of COVID -19 were less severe or insignificant, notwithstanding the Analysis, there is little or no actual evidence that a 20% inclusionary zoning requirement can “pencil” even in Palo Alto. According to an August 2019 report by the Turner Center at UC Berkley entitled *Making it Pencil, The Math Behind Housing Development*, when San Francisco increased its inclusionary zoning mandate to the 20% level, production dropped precipitously: “San Francisco – New IZ policy enacted in 2016 - 2017 applications fell by 36.5% from 2016”.

In fact, the Turner Center report references multiple analyses showing that even a 15% inclusionary requirement did not pencil in representative Bay Area jurisdictions during the strong housing market conditions that existed pre-COVID and must be coupled with significantly enhanced (non-discretionary and pre-defined) incentives such as tax abatements, a cap on other fees and exactions, alternative compliance options, relaxation of design and zoning requirements, required parking reductions, and greater density bonuses.

Until the impacts of COVID-19 on land value, rents and availability of capital becomes clear, cautious consideration should be given to the timing of additional cost and fee burdens placed on new development. Now is not the right time to raise fees or inclusionary percentages on new housing.

Despite the COVID 19 pandemic and the resulting economic slowdown, Silicon Valley still faces a housing crisis and the construction of new housing is in the vital interests of the City. BIA is looking forward to finding solutions that are fair and reasonable for both the City and the home building industry. Please do not hesitate to contact me with any questions or comments.

Respectfully submitted,

Dennis Martin

Dennis Martin
BIA Government Affairs

Baumb, Nelly

From: Bob Wenzlau <bob@wenzlau.net>
Sent: Sunday, September 20, 2020 2:03 PM
To: Council, City
Subject: Items 8 and 9 - Consideration of Palo Alto Airport As Housing

CAUTION: This email originated from outside of the organization. Be cautious of opening attachments and clicking on links.

Council Members,

As you examine affordable housing, I wanted to ask you in the longterm to evaluate the conversion of the Palo Alto Airport (PAO) to a mixed use housing project. Please ask staff to consider this as another parallel option that gets some evaluation as to its viability comparable to other options getting staff resources.

I had raised this prospect during the comprehensive plan process as a member of the Citizen Advisory Committee. That process was not friendly to innovatio. I will offer a more extensive argument as part of a forthcoming guest opinion in the Weekly, but wanted to introduce you to the potential given the housing topic in front of you at council.

At least 50% of the ABAG directive for housing could be achieved by converting the airport to a mixed use project - upwards of 4,000 housing units if not more. The airport is over 100 acres of city owned land.

The PAO land would reasonably be valued at over one billion dollars, and now brings no money to our General Fund, instead I believe being contained in an enterprise fund. If converted to housing through long-term land leases, an annuity of \$50 million to \$100 million dollars might be realized. Merely this financial return would reasonably warrant asking why we are not realizing the value of this asset?

The airport does not really serve Palo Alto, only a few community members and primarily regional members use the airport. Most of the airport proponents now live outside Palo Alto.

But in Palo Alto there is strong local sentiment against airplane noise, especially low flying planes. There is concern that the airplanes deposit lead from their leaded fuels into our air and soils. From our climate action plan lens, the carbon expelled by airport operations has no benefit, and ostensibly constitutes our final "incinerator".

Many will arrive at quick arguments in opposition to this conversion. The FAA contract binds us - *Santa Monica and other communities have escaped the contracts. The sea will rise -- there are design techniques that anticipate sea level rise and/or there will be regional protection of our city land north of Bayshore.* This is not an area for housing because of traffic infrastructure or schools -- *the project begs the incorporation of some public facilities as well as innovative transportation to bring residents to rail or downtown.* Finally, we will hear that the airport is critical to Stanford's medical services - *but the helicopters could fuel elsewhere, and Stanford has its own heliport.* These arguments are all mitigated.

As the air cleared and I walked at the Baylands this weekend, I imagined Palo Alto Landing in ten years - a place that planners and developers could create a public interface for dining and visitation to our Baylands, a place that honors aviation history, and perhaps retains innovative flight landing for drones. I imagined our firefighters, teachers and others having a great place to start their lives as local essential workers, as well as our seniors enjoying sunrises across our baylands where now only private planes fly or park.

As council members I hope there is a pathway where PAO as an affordable housing project could be evaluated along with other options. Given the merits I lifted up, it seems there should be an approach to get this on the table with other options that receive tremendous staff investment.

As always, thank you so much for your service!

Bob

--

Bob Wenzlau

bob@wenzlau.net

650-248-4467