TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DEPARTMENT: PLANNING AND COMMUNITY ENVIRONMENT

DATE: NOVEMBER 10, 2008

CMR: 441:08

REPORT TYPE: STUDY SESSION

SUBJECT: Study Session to Review Housing Needs Analysis for the Stanford University Medical Center and Stanford Shopping Center Projects

EXECUTIVE SUMMARY
The City contracted with Keyser Marston Associates Inc. (KMA) to conduct a housing needs analysis for the SUMC and SSC proposed expansions. The purpose of the analysis was to determine the number of new housing units required to accommodate the housing needs of the new employees resulting from the employment growth generated by the expansions and to categorize the housing demand by affordability levels.

KMA’s report finds that 1,856 new housing units will be needed somewhere in the region to meet the housing demand induced by the employment growth generated by the proposed projects. Of this number, nearly sixty-two percent (62%) or 1,158 units would comprise households earning up to 120% of the area median income (AMI), and nearly forty five (45%) or 826 units would comprise households below 80% AMI.

The purpose of the study session is to provide the City Council with an overview of the Housing Needs Analysis report and allow for Council comment regarding the City’s approach to housing issues as the projects move forward.

RECOMMENDATION
The purpose of the study session is to 1) provide the City Council with an overview of the Housing Needs Analysis prepared by Keyser Marston Associates, Inc. (KMA) related to the Stanford University Medical Center (SUMC) Replacement and Renewal Project and the Simon Properties – Stanford Shopping Center (SSC) Expansion Project, and 2) allow for Council comment regarding the City’s approach to housing issues as the projects move forward.
BACKGROUND
Review for the Stanford Medical Center and Shopping Center projects has been divided into two phases: Phase I (Information Sharing and Preliminary Area Plan) from December 2006 through July 2007, and Phase II (EIR and Entitlements), from July 2007 through early 2009, to culminate with certification of the EIR and the City’s decision on the applications. A single EIR is being prepared for both the SUMC and SSC. The Draft EIR is tentatively scheduled to be released in Winter 2009. Information in the Housing Needs Analysis will be used in the EIR to analyze population and housing impacts of the Projects and will also assist the City in determining the affordable housing requirements for the Projects.

DISCUSSION
The City contracted with Keyser Marston Associates Inc. (KMA) to conduct a housing needs analysis for the SUMC and SSC proposed expansions. The purpose of the analysis was to determine the number of new housing units required to accommodate the housing needs of new employees resulting from the employment growth generated by the expansions and to categorize the housing demand by affordability levels.

KMA took the following steps to derive its findings:

- KMA projected and analyzed the overall employment growth to be generated by the proposed expansions, including the total number and types of new employees, and the occupational distribution and compensation levels for the employees. KMA considered the net added building area of the proposed expansions and the market square footage requirement for employees in determining the number of new jobs to be created by the expansions, and utilized publicly available data and data provided by Stanford to determine the types and levels of compensation of the new jobs.

- KMA calculated the total number of new households to be generated as a result of the increase in employment by dividing the number new jobs to be created by the average household size in Santa Clara.

- KMA determined the number of new housing units needed based on the number of new households, and determined the affordability level using the results of the analysis from steps 1 and 2. The KMA report concludes that the expansions will generate a net increase of 3,200 new jobs. The total number includes adjustments to account for part-time employment. Using the Santa Clara County average of 1.72 workers per worker households, the report finds that a total of 1,856 new housing units will be required somewhere in the region to meet the housing needs generated by increase in the employment.

Employment

Stanford University Medical Center Expansion (SUMC)
The SUMC expansion will generate seventy percent (70%) or 2,242 workers of the total new employment.
**Stanford Shopping Center Expansion (SSC)**
The proposed 240,000 square foot expansion of the SSC will generate a net increase in employment of 958 workers, with the retail industry gaining 532 jobs, and the hospitality industry (restaurant and hotel) adding 446 new jobs.

The study points out that a primary difference between the projected employment at the SUMC and the SSC is the lower compensation level of the retail and hospitality employees and the propensity of lower wage employees to hold secondary jobs. Below is the breakdown of the projected added employment for both SUMC and SSC.

<table>
<thead>
<tr>
<th>SUMC</th>
<th>SSC</th>
</tr>
</thead>
<tbody>
<tr>
<td>SHC</td>
<td>Retail</td>
</tr>
<tr>
<td>1,251</td>
<td>532</td>
</tr>
<tr>
<td>LPCH</td>
<td>Restaurant</td>
</tr>
<tr>
<td>891</td>
<td>351</td>
</tr>
<tr>
<td>Non-SUMC</td>
<td>Hotel</td>
</tr>
<tr>
<td>100</td>
<td>75</td>
</tr>
<tr>
<td>Total</td>
<td>Total</td>
</tr>
<tr>
<td>2,242</td>
<td>958</td>
</tr>
</tbody>
</table>

**Housing**
KMA’s report finds that 1,856 new housing units will be needed somewhere in the region to meet the housing demand induced by the projected employment growth from the proposed projects. Of this number, nearly sixty-two percent (62%) or 1,158 units would comprise households earning up to 120% of the area median income (AMI), and nearly forty five (45%) or 826 units would comprise households below 80% AMI.

**SUMC Expansion**
A total of 1,301 housing units are needed in the region to meet the SUMC expansion. The housing demand for the very-low income level below 50% AMI is 7% (91 units) and the total affordable (very-low, low, and moderate income levels below 120% AMI) unit demand would be 40% (526 units). The housing demand for income level above 120% AMI is 53% or 684 housing units for SUMC.

**SSC Expansion**
A total of 555 housing units are needed in the region to meet the SSC expansion. The housing demand for the very-low income level below 50% AMI for the SSC is significantly higher than at SUMC at 70% (389 housing units). The total demand for affordable units (below 120% AMI) is projected at 27% (152 units). On the other hand, the housing demand for income level above 120% AMI is only 3% (14 units).

The table below shows the breakdown of the number of required housing units by affordability level.
Number of Housing Units by Affordability Level

<table>
<thead>
<tr>
<th>INCOME LEVEL</th>
<th>SUMC</th>
<th>SSC</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 50% AMI</td>
<td>91</td>
<td>389</td>
<td>480</td>
</tr>
<tr>
<td>50% to 80% AMI</td>
<td>228</td>
<td>118</td>
<td>346</td>
</tr>
<tr>
<td>80% to 100% AMI</td>
<td>149</td>
<td>23</td>
<td>172</td>
</tr>
<tr>
<td>100% to 120% AMI</td>
<td>149</td>
<td>11</td>
<td>160</td>
</tr>
<tr>
<td>120% to 150% AMI</td>
<td>190</td>
<td>7</td>
<td>197</td>
</tr>
<tr>
<td>Over 150% AMI</td>
<td>494</td>
<td>7</td>
<td>501</td>
</tr>
<tr>
<td>Total</td>
<td>1,301</td>
<td>555</td>
<td>1,856</td>
</tr>
</tbody>
</table>

Palo Alto Housing Requirements
Like other Bay Area jurisdictions, Palo Alto has an extremely limited supply of vacant residential land. Most of the City’s development potential consists of infill on small vacant lots, redevelopment of existing properties, and conversion of underutilized non-residential lands to higher density residential or mixed-use projects.

State Housing Element law requires that localities provide for their “fair share” of the region’s housing need. The Association of Bay Area Governments (ABAG) determined that Palo Alto’s projected need for the period from January 1, 2007 – June 30, 2014 will be 2,860 units. The projected housing is described as the Regional Housing Need Allocation (RHNA). In addition to projecting overall housing needs, ABAG also projects housing needs by income category. The intent of this action is to equitably distribute households by income category so that no one city or county is “impacted” with a particular income group. The table below shows how the City of Palo Alto’s 2007-14 housing need by income category is allocated by ABAG.

Palo Alto Regional Housing Need Allocation 2007-2014

<table>
<thead>
<tr>
<th>INCOME LEVEL</th>
<th>NEED</th>
<th>APPROVED 2007-2014</th>
<th>UNMET NEED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Low (Under 50% AMI)</td>
<td>690</td>
<td>57</td>
<td>633</td>
</tr>
<tr>
<td>Low (50% to 80% AMI)</td>
<td>543</td>
<td>16</td>
<td>527</td>
</tr>
<tr>
<td>Moderate (80% to 120% AMI)</td>
<td>641</td>
<td>105</td>
<td>536</td>
</tr>
<tr>
<td>Above Moderate (Above 120% AMI)</td>
<td>986</td>
<td>713</td>
<td>273</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2,860</td>
<td>891</td>
<td>1,969</td>
</tr>
</tbody>
</table>

As shown in the table above, the unmet housing need remains high for the 2007-14 RHNA. The SUMC and SSC expansions will result in minimal additional demand for housing during the current Housing Element cycle. It is not yet certain whether or how the expansions will affect the demand for housing in future Housing Element cycles.
Potential Housing Sites and Approaches
The City and the applicants plan to determine through the Development Agreement how much housing to require in conjunction with the developments, as well as the affordability of such housing. In addition, the Development Agreement will need to outline whether housing needs are addressed through fees, dedication of sites for housing, construction of housing, or some combination of those.

Housing needs for most commercial projects are addressed through payment of housing impact fees. The Shopping Center project is subject to the existing housing impact fee ordinance and it will be required to pay fees. The Medical Center is currently not subject to impact fees under the existing ordinance and both the City and applicants have agreed to address the housing needs for this project through the entitlement process. There are several ways to address the project related housing demand, including expansion of fee program to include Medical Center, adoption of inclusionary housing regulations for hospital zones or inclusion of housing agreement in Development Agreement. Given the proximity of the project to transit sites, the availability of Stanford controlled land in the vicinity of the project and the City and applicants’ mutual desire to reduce project generated traffic, staff is currently focusing on incorporating housing solutions into the Development Agreement.

The Stanford University Medical Center Area Plan identified four (4) potential housing sites in close proximity to the project:

1. A 6.7-acre site was included in the Sand Hill Road Projects EIR and is zoned by the City of Palo Alto for high density residential (RM-40). The RM-40 site is developed presently with 148 housing units. Approximately 80-100 additional housing units could be accommodated on this site under the current zoning.

2. An 8-acre housing site at Quarry Road and Arboretum Road that is located in unincorporated Santa Clara County was approved in Stanford’s General Use Permit (GUP) to allow development of 200 housing units for hospital residents and post-doctorate students. Additional units at this site may be permitted by the GUP, subject to some restrictions.

3. A 6.2-acre housing site at Quarry Road and El Camino Real, also located in unincorporated Santa Clara County, was approved in Stanford’s General Use Permit to allow development of 150 housing units for hospital residents and post-doctorate students. Again, increased density may be permitted by the GUP, subject to some restrictions.

4. The “Red Cross” site near the current VTA terminal and adjacent Stanford lands leased to Palo Alto in the Palo Alto Intermodal Transit Station (PAITS) area. This site could accommodate approximately 30 units.

Other potential housing sites could be explored, including other General Use Permit sites if and when those identified are determined not to be feasible.

PLANNING AND TRANSPORTATION COMMISSION REVIEW
On October 1, 2008, the Commission held a study session on the Housing Needs Analysis prepared by KMA. The Commission provided comments on the housing study and employment
that would be generated by the projects. The Commission continued the study session to October 29, 2008 to provide an additional opportunity for comments from Commissioners. The minutes from each meeting are contained in Attachment B.

NEXT STEPS
The City’s environmental consultant, PBS&J, is currently preparing the Draft EIR. The targeted issues teams continue to meet to review detailed technical information for inclusion in the Draft EIR. City staff anticipates providing the Planning and Transportation Commission and Council with a draft traffic analysis for review prior to the release of the Draft EIR. The City’s urban design peer review consultant, Bruce Fukuji, is preparing a Village Concept Alternative for the Draft EIR. The Draft EIR is tentatively expected to be released in early 2009.

On July 14, 2008, the City Council provided comments on the scope of analyses for fiscal impact reports for the projects. The City has contracted with Economic Research Associates (ERA) to perform an independent hotel analysis to understand the current hotel market within Palo Alto and has contracted with Applied Development Economics (ADE) to perform a peer review of the fiscal analyses and “Urban Decay” analysis prepared by CBRE, the applicant’s fiscal consultant. It is anticipated that ERA’s and ADE’s analyses will be provided to the Commission and Council in early 2009. City Council will review the design concept when the plans and Development Agreement are considered.

Stanford continues to present designs for study sessions and preliminary review of the Stanford Hospital and Clinics, Lucile Packard Children’s Hospital, School of Medicine, Hoover Pavilion and Design Guidelines to the City’s Architectural Review Board (ARB). The applicant for the Stanford Shopping Center continues to work on the design guidelines for the Shopping Center. The ARB review of the different components of the project will continue through early 2009.

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ATTACHMENTS
Attachment B: October 1 and October 29, 2008 Planning and Transportation Commission minutes.

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