City of Palo Alto (ID # 11930)

City Council Staff Report

Report Type: Action Items **Meeting Date: 6/14/2021**

Summary Title: NVCAP - Review Plan Alternatives

Title: PUBLIC HEARING: Recommendation on the Preferred Plan Alternative for the North Ventura Coordinated Area Plan (NVCAP). The Planning and Transportation Commission and Staff Recommend the City Council Review the NVCAP Alternatives and Select Alternative Number 3B as the Preferred Alternative

From: City Manager

Lead Department: Planning and Development Services

Recommendation:

The Planning and Transportation Commission and staff recommend the City Council review the North Ventura Coordinated Area Plan (NVCAP) alternatives, take public comment, and select Alternative #3B as the preferred alternative.

Executive Summary:

The draft alternatives in this report represent a major milestone in the preparation of the NVCAP. The alternatives synthesize different ways the City Council adopted goals and the Working Group vision can be realized in the plan area. All the alternatives consistently provide opportunities for new housing and ground-floor retail uses, while they vary in the amount of development proposed and the improvements and community benefits provided.

The draft alternatives incorporate a substantial amount of input from stakeholders, community members, advisory-bodies, and decision-makers. This includes:

- Input provided by the Working Group over 17 meetings held from 2018 to 2020;
- Feedback from community members provided at two workshops and online questionnaires;
- Feedback from the Planning and Transportation Commission on draft alternatives in April 2020, December 2020, and their recommendation in January and March 2021;
- Analyses provided by the City's competitively-selected consultant team; and
- Professional planning experience of City staff and consultants.

This report presents three draft alternatives for the NVCAP for the City Council's consideration. The Planning and Transportation Commission recommended Alternative #3 (4-2 Suma, Lauing dissenting; one seat vacant). The PTC also recommended modifying the alternative in order to support additional below-market rate housing and open space. This revised alternative is hereafter referred to as "Alternative #3B." Staff supports this recommendation and encourages Council to consider Alternative #3B. The Council, however, may consider supporting this alternative, another alternative, support a combination of alternatives, or suggest modifications for the recommended alternative.

In its deliberations, the Council may consider how well the alternatives meet the goals identified by the City Council in 2018, realize the vision created by the Working Group, and guide development of the area to meet the needs of current and future Palo Altans.

Once Council has selected a preferred alternative, the alternative will be further studied and refined. The results of the studies will influence revisions to the alternative, which will then be presented to the PTC and ultimately the City Council. Then the Council will again endorse the preferred plan and environmental review can begin. Finally, the plan and environmental review will be presented for consideration by the PTC and Council for adoption.

Background:

On March 10, 2021, at their third hearing[1] on the NVCAP alternatives, the PTC made a motion to recommend Alternative #3 with modifications, as the preferred NVCAP alternative. The modifications included in the motion were:

- Increase Below Market Rate (BMR) requirements to 20% for for-sale projects and add a 15% on-site BMR requirement for rental projects;
- Find funds or other means (e.g. modify development standards) to make it feasible to increase the 15% BMR requirement to 20% for rental housing; and
- Consider opportunities for additional open space using 5.5 acres as the starting baseline.

Alternative #3B responds to the motion and provides the analysis to support increased BMR requirements and the open space opportunities.

Planning Area

The NVCAP plan area represents a rare opportunity within the city to plan proactively for a transit-oriented, mixed-use neighborhood. The NVCAP project area lies within the Ventura neighborhood of Palo Alto. It is comprised of approximately 60 acres, roughly bounded by Page

[1]PTC Staff Report, 03/10/21: https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/planning-and-transportation-commission/2021/ptc-3.10-nvcap.pdf

Mill Road, El Camino Real, Lambert Avenue, and the Caltrain tracks, as shown in Figure 1. The plan area is near local and regional destinations including the California Avenue Caltrain Station, California Avenue Business District, and Stanford Research Park.

Coordinated Area Plan

Recognizing these opportunities, the City's 2030 Comprehensive Plan, adopted in 2017, called for site specific planning in the North Ventura area. The City secured grant funding in 2017 to initiate the NVCAP project. On March 5, 2018, The City Council adopted seven goals and six objectives (Attachment B). Goals include adding to the City's supply of multi-family housing, developing a transit-accessible neighborhood with retail services, creating a connected street grid, developing community facilities, and encouraging sustainability.

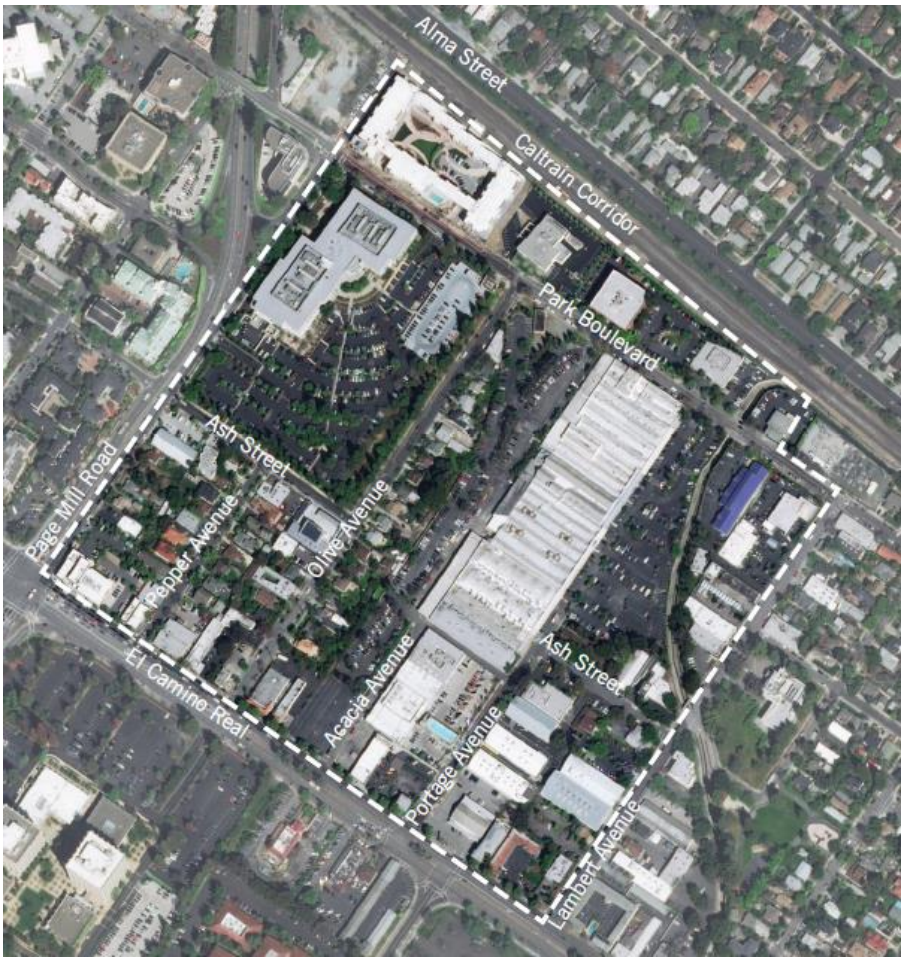


Figure 1: NVCAP Area Boundary

Figure 2 provides a high-level project process and timeline. Currently, the City is in the "Community Engagement and Analysis" phase. City staff and consultants initiated work in 2018 on existing background conditions and extensive community engagement. They prepared initial alternative land use and transportation scenarios in 2019 and 2020. City staff and consultants conducted extensive research and community outreach with the Working Group (WG), stakeholder meetings, and with the community at-large. Next, consultants will prepare technical analyses to evaluate effects of the preferred alternative before preparing the draft CAP and conducting environmental review.

Figure 2: Project Process/Timeline

Development of Alternatives

The feedback from the WG members and public were incorporated into a series of alternatives over the past 1.5 years. The first alternatives were presented in December 2019 and January 2020.[2] They were further refined based on initial feedback and presented at the community workshop in February 2020. On April 29, 2020, the PTC reviewed the first draft of alternatives[3] during a study session; these are illustrated as a snapshot in Figure 3 and detailed in the footnote.

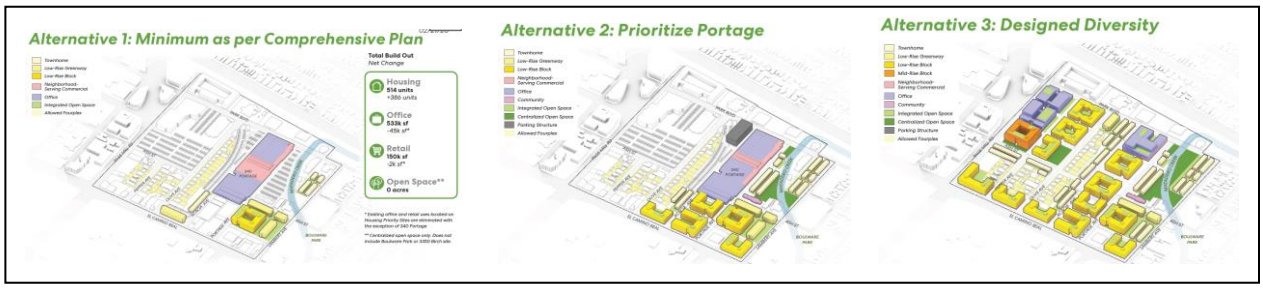


Figure 3: Snapshots of Initial Draft Alternatives (April 2020)

Following the PTC meeting, the WG and staff worked over the spring and summer of 2020 to refine the alternatives. During that time, some WG members prepared six plan alternatives[4], labeled Alternatives G, K, H, J, L, and M. They were presented and discussed by the WG in the spring of 2020.

Following that, a series of WG subcommittee meetings were held to find areas of agreement and disagreement among the members. Three alternatives were developed to reflect as closely as possible the varying preferences of the WG. The results of this collaboration with the WG are reflected in the three alternatives presented herein and illustrated in Attachment A.

[2]December 5, 2019 Alternatives: www.cityofpaloalto.org/files/assets/public/planning-amp-development-services/north-ventura-cap/9a-draft-plan-alternatives-wg-meeting.pdf

[3] Draft alternatives: https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?BlobID=75521&t=65883.06

[4] Working Group Developed Alternatives: www.cityofpaloalto.org/files/assets/public/planning-amp-development-services/north-ventura-cap/attachment-a_all-wg-alternatives_3.pdf

Once the City Council selects a preferred alternative, consultants will analyze potential transportation and environmental impacts. This analysis will support any further refinements to the draft plan. City staff expects consultants to develop a draft plan for adoption in 2022.

Community Engagement

To ensure significant and meaningful community engagement (City Council Objective 4), the City Council appointed a 14-member WG.[5] The WG created a vision statement[6] for the plan area which is summarized below:

> *The Working Group envisions the plan area to replicate a European square with open plaza, colorful public art, beautiful landscaping with green open spaces and lots of public amenities such as benches, trails, and bike paths. The building designs should fit well within the existing context, between three and six stories, interconnected with pedestrian and bicycle paths. The bustling plaza should have lots of local-serving retail uses such as cafes, small local markets, and theatres, which encourage lively foot traffic. The plan area also should provide diverse housing opportunities, with minimum intrusion from automobile traffic.*

Over the last two years, City staff and consultants have conducted extensive community outreach and analysis.[7] See Attachment C for an extensive list of community outreach activities.

Evolving Opportunities and Constraints

Throughout the planning process, opportunities and constraints have emerged. The Council may wish to include these factors as they review the alternatives. The opportunities and constraints analysis prepared in 2018, did not include the more recent opportunities and constraints, which include:

1. The COVID-19 global pandemic, which has resulted in a financial recession and shift to work-from-home for many Palo Alto and Bay Area employers;
2. The pending approval of the methodology for the Regional Housing Needs Allocation (RHNA) for potentially 6,086 units over an 8-year period.
3. Active interest in development in this neighborhood for a variety of uses and densities, indicating that setting the vision and framework for development under the NVCAP will be important and meaningful. Most notably, the Sobrato Organization submitted an SB330 housing development application for the development of 91

[5] The Working Group is comprised of 14 individuals, including residents within the plan area, residents in the Ventura neighborhood, two property owners, and one representative from each of the following boards or commissions: Architectural Review Board; Parks and Recreation Commission; and Planning and Transportation Commission.

[6] Working Group's Full Vision Statement: www.cityofpaloalto.org/files/assets/public/planning-amp-development-services/north-ventura-cap/19-08855_paloalto_p101_visionstatement_11x17.pdf

[7] Existing Conditions: https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?BlobID=73918&t=52731.83

townhomes at "200 Portage." Additionally, 113 units have been proposed at 2951 El Camino Real using the PHZ zoning tool.

These topics are discussed in more detail in Attachment D.

Discussion:

This section of the report summarizes the draft plan alternatives, including allowed uses, key standards, development potential (e.g., units, jobs, population, open space acres), and methodology. Table 1 compares key characteristics of each alternative. Attachment A illustrates land use, building, height, and open space concepts. The alternatives aim to synthesize the City Council adopted goals for the NVCAP area to offer community members new housing options, transportation connections, community facilities, sustainability, and urban design that support the neighborhood fabric.

Table 1: Comparison of Plan Alternatives, by Topic

Characteristic	*Alternative #1*	*Alternative #2*	*Alternative #3B*
Housing	Emphasizes townhomes near existing residential; mid-rise residential/mixed-use on corridors and elsewhere in plan area.	Range of housing types and affordability levels, including townhomes, mid-rise residential, and mixed-use.	Accommodates a range of housing types, affordability levels, including duplexes, six-plexes, townhomes, mid-rise residential, and mixed-use.
Height/ Density and Transitions	Place higher heights and greater densities on El Camino Real and Page Mill Road, where multifamily and residential mixed-use buildings with ground floor retail would be permitted. Transition between higher density/height areas and existing single-family homes through height transitions.		
Open Space	Parks, pedestrian and/or bike connection, landscape setbacks and buffers		Same as Alts 1 & 2, plus woonerfs, creekside amenity and trails.
Office	Allows existing large-format office floor area to continue. Once demolished, the office space may not be rebuilt.	Allows replacement of existing office floor area in new buildings.	Allows expansion of existing office floor area.
	Would allow new, ground-floor, small, professional office (such as dentist, etc.).		
Retail	Would allow ground floor retail.	Encourages active-ground floor uses, which can be retail or retail-like. Proposes retail near the Caltrain station and a centralized retail corridor along a portion of Portage Avenue.	
340 Portage	Maintains the cannery	Assumes significant	Assumes demolition of the

(Cannery)	building and Ash Office Building and allows for 2 possible uses of the buildings: (1) continued use as retail and office space (2) adaptive re-use into housing. Also permits the construction of housing on remaining portions of the parcel, specifically the two remaining surface parking lots on the property.[(2)] This reflects part of Alternative M's goals in that the cannery building is retained.	demolition of the cannery building with retention of the monitor roofs either incorporated into a new building or relocated on site into a new feature. Allows replacement of current office/retail commercial floor area in a new building(s), addition of new multifamily residential uses, and requires parkland dedication. Assumes retention of Ash Office Building.	cannery building. Allows expansion of existing amount of office/retail floor area in a new building(s) in addition to new multifamily residential uses. Requires parkland dedication and creek naturalization improvements. Assumes retention of Ash Office Building.
395 Page Mill Rd (Cloudera)	Allows multifamily housing at moderate density; however, redevelopment is unlikely if existing office uses cannot be replaced in kind.	Allows multifamily housing at moderate density; assumes replacement of existing office floor area in a new building, new multifamily housing, and parkland dedication.	Allows multifamily housing at moderate density; assumes expansion of existing office floor area in a new building, neighborhood retail, new multifamily housing, and park/open space dedication.
Residential Parking Ratio	1.5 space per bedroom, capped at 2 spaces per unit (existing requirement).	1 space per bedroom, capped at 2 spaces per unit; allowed to unbundle.	1 space per unit; allowed to unbundle.
Commercial Parking Ratio	Blended standard rate same as Downtown Palo Alto: 1 space per 250 sf.		Blended standard rate more progressive than the 1 space per 250 sf used in Downtown.
	Exempt first 1,500 sf of ground floor commercial floor area from parking requirement.	Exempt first 2,000 sf of ground floor commercial floor area from requirement.	Exempt first 3,000 sf of ground floor commercial floor area from parking requirement.
Potential for Change	Anticipates slow to moderate turnover of commercial sites into multifamily and residential mixed use.		Anticipates a higher turnover of commercial and industrial sites into retail, office, multifamily and residential mixed use,

			given higher office allowances.
Potential Benefits	Limited community benefits (e.g., park and creek improvements, BMR housing) given low levels of development that may result.	Moderate community benefits (e.g., park and creek improvements, BMR housing) given moderate levels of development that result.	Highest community benefits (e.g., park and creek improvements, BMR housing) due to projected development.

City staff were able to develop three alternatives that synthesize the vision and desires of a range of stakeholders. From Alternative #1 to Alternative #3B, the scenarios offer increasing amounts of residential and commercial development, matched by increasing opportunities for parks, affordable housing, transportation improvements, and other community benefits.

Of the three alternatives, only one, Alternative #3B, is financially feasible according to the project's consulting economists (see analysis below). While there is a strong desire for affordable housing and open space, these uses do not generate adequate revenue to cover the costs of development. Alternative #3B is the only alternative that matches housing types, parking standards, and allowances for office development to achieve feasibility and generate additional below-market rate units, open space, and other community benefits. Based on the PTC's approval motion and recommendation, City staff have refined Alternative #3B to add affordable housing requirements and increase the amount of open space provided.

Alternative #1

Alternative #1 increases housing capacity, though at more modest levels than the subsequent alternatives. This is achieved through new townhome development near existing single-family homes, and mid-rise apartments and mixed-use residential development on El Camino Real, Portage Avenue, and Lambert Avenue.

Over time, this alternative would lead to the elimination of office uses within the NVCAP area. As parcels with office spaces are redeveloped for residential and retail uses, offices would not be replaced. Only small-scale professional offices use would be permitted. The cannery building at 340 Portage would remain with its existing office/retail uses, or could be adaptively reused for housing, as desired by several WG and community members. The office building at 395 Page Mill Rd. would also remain. The requirement to eliminate office uses will likely deter many property owners of office space from redeveloping housing only sites. COVID-19 could make housing uses more desirable, but only time will reveal preferences and development trends.

Alternative #1 supports up to 1.9 acres of park space. Compared to subsequent alternatives, Alternative #1 supports less park space. This is both because the number of proposed residents

is fewer and because of reduced redevelopment potential limiting the opportunity to require park land dedication.

Alternative #1 Compared to Alternative M

Due to continued discussion of "Alternative M" in the broader community, staff would like to discuss that alternative's similarities to Alternative 1.

Alternative 1 most closely reflects "Alternative M", an alternative developed by 2 WG members and 1 community member. Alternative M, proposes to build 700 affordable housing units using public funds without increasing the density on sites within the plan area. Alternative M also proposed to adaptively re-use the historic cannery building into affordable housing. Over time, Alternative M would seek to eliminate office uses from the plan area.

Like all of the alternatives generated by the Working Group members, aspects of alternative M have been incorporated into the three draft alternatives. In particular, Alternative 1 reflects elements of Alternative M. Alternative 1 retains the historic cannery building. This building can either continue its current uses or be adaptively re-used into housing. Alternative 1 also does not permit any new office and would seek to eliminate office uses over time, replacing those uses with housing over retail. Alternative 1 does consider more sites eligible for housing than Alternative M, but far fewer sites than Alternatives 2 or 3B.

As staff are seeking a recommendation on the preferred concept, revenue plans are premature at this time, whereas Alternative M proposes to generate a public source for construction of housing. Nevertheless, the Finance Committee of the City Council will discuss overall revenue sources for the City on June 15, 2021. Part of this discussion will include sources that can fund affordable housing.

The limited feasibility of Alternative 1, and Alternative M, led to limited support from the PTC. In addition, the limited financial feasibility and limited support from property owners poses serious challenges; if the Council would like to see the plan for the NVCAP be realized, Alternative 1 and M are unlikely to yield that outcome. Additionally, 700 units of housing may not generate the amount of residents and visitors needed to sustain walkable and bikeable retail.

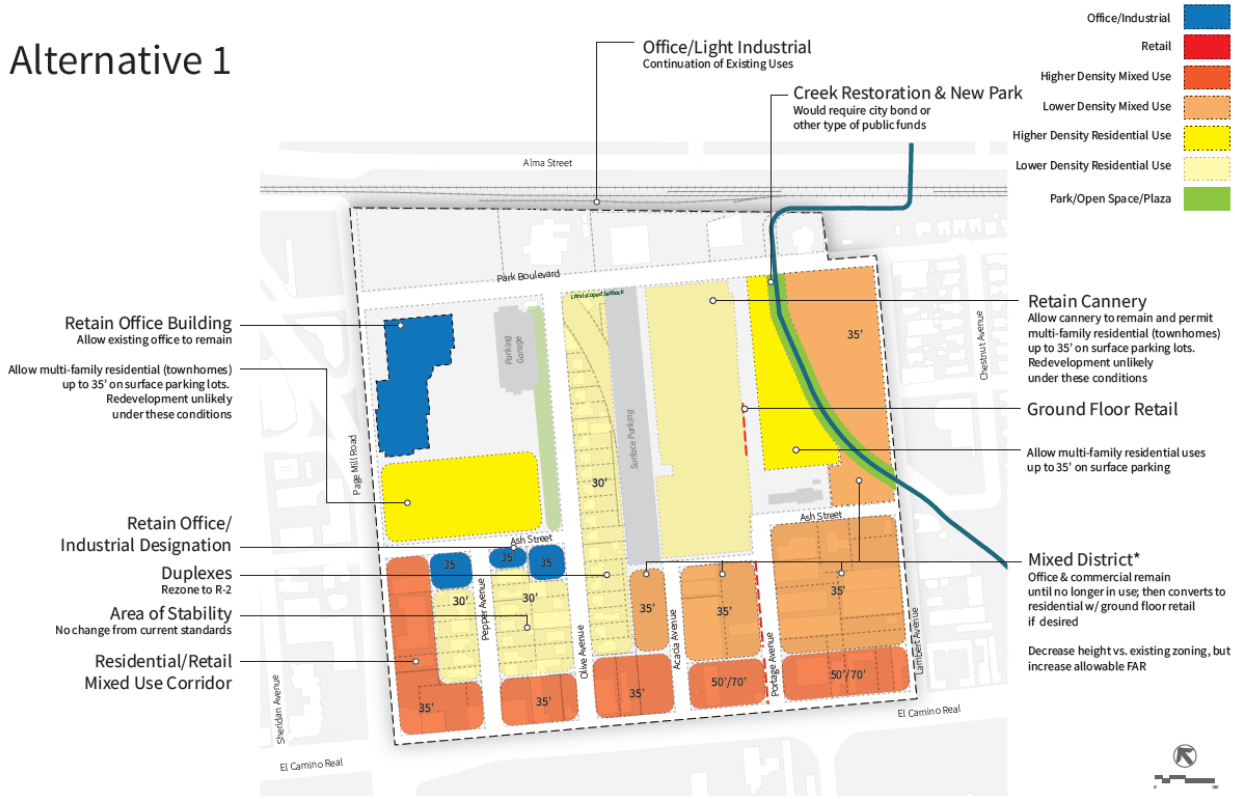


Figure 4: Alternative #1

<u>Alternative #2</u>

Alternative #2 achieves a middle ground of housing and commercial development, compared to the other alternatives. Increased housing capacity is still achieved through mid-rise apartments and mixed-use residential development on El Camino Real and Portage and Lambert Avenues, but also through redevelopment of the two large sites and rezoning of the GM parcels east of Park Blvd.

Overall, this alternative retains the current amount of office square footage in the NVCAP area. The cannery building at 340 Portage would be at least partially redeveloped in this scenario to allow for new mid-rise and/or mixed-use residential; no additional office would be permitted. The office use at 395 Page Mill Rd. would also remain, but the square footage could be reconfigured or rebuilt in new facilities to allow space for new mid-rise residential. Alternative #2 supports a mid-range of amenities and community benefits, compared to the two other alternatives, given the amount of development proposed.

Alternative #2 is not financially feasible. Strategic Economics' findings, however, do suggest that modest adjustments in parking and/or ground floor retail could enhance the feasibility of this option. Specifically, requiring one parking space per housing unit significantly enhances the feasibility of Alternative #2. Further adjustments could achieve greater feasibility. Retaining the

office space has received better response to office owners than Alternative #1, though it may not be enough benefit to incentivize development.

Figure 5: Alternative #2

<u>Alternative #3B</u>

Alternative #3B achieves the greatest amount of housing and commercial development, compared to the other alternatives. Increased housing capacity is achieved in a similar manner to Alternative 2 but provides greater incentives for redevelopment.

Specifically, Alternative #3B allows the development of additional office space. The alternative seeks to provide enough additional office space to incentivize landowners to redevelop housing alongside the additional offices. The cannery building at 340 Portage Ave. and the office building at 395 Page Mill Rd. could be demolished, and the office floor area could be increased—if residential uses are built in tandem. This alternative retains the current amount of office square footage in the NVCAP area and allows for an increase in office square footage.

Alternative #3B supports the most amenities and community benefits, compared to the two other alternatives, given the amount of development proposed and the fees and exactions that could be assessed.

Based on the PTC's input, this alternative evolved from a 15% BMR requirement to a 20% BMR requirement. This was the only alternative where the higher BMR threshold was financially feasible in rental projects. Specifically, taller heights and reduced parking requirements allowed for more efficient parking, higher unit yields, and reduced construction costs.

It is notable that parking requirements are a key difference between the inclusionary rate for Alternative 2 and 3B, leading towards a higher inclusionary rate being possible for alternative 3B. If the parking requirement of Alternative 2 were lowered to match Alternative 3, the financial feasibility of Alternative 2 increases. Still, staff remain concerned that owners of active office space will not redevelop if additional office space is not allowed.

Figure 6: Alternative #3B

Constants Across Each Alternative

The following items represent constants across each of the alternatives. Although the amounts of affordable housing, parks and open space, and circulation improvements vary across the alternatives, the methods to achieve these outcomes are generally consistent.

Affordable Housing – Generating affordable housing is one of the key drivers of the plan and is generally supported by all participants. Though the amount of housing generated differs across the alternatives, each alternative supports affordable housing in similar ways:

1. Bonuses: Creating an NVCAP Height and Density Bonus program, available to 100%, deed-restricted, below-market rate housing and 100% deed-restricted workforce housing. The bonus allows such developments height up to 70 feet, above the 50-foot maximum elsewhere in the plan area. The bonus is proposed only along El Camino Real or Page Mill Road.[8]
2. Inclusionary Housing: Requiring 20% below-market rate housing on new development for Alternative #3B, where it is financially feasible to do so (vs. 15% in Alternatives #1 and #2, under the City's inclusionary housing requirement). The current plan and financial feasibility analysis assume the continuation of existing assessment methods: for-sale units meet the inclusionary housing requirements on-site and rental units would pay a fee in lieu. However, the Council may wish to reconsider this policy for the NVCAP area.

Other ways to support affordable housing within the planning area and across the city are described in this report's Policy Implications section and detailed in Attachment E.

Parks & Open Space – Each alternative seeks to maximize open space through a range of initiatives including land dedications, publicly-accessible private open spaces, improvements to Matadero Creek, and use of public and private rights-of-way as linear parks. The alternatives assume 5% to 20% dedications on the medium and largest sites, respectively.

There are several ways that the NVCAP can generate these publicly accessible parks and open spaces. These include:

- Dedications by a developer/property
- Impact fees assessed on new development
- Creation of a benefit district and associated assessment
- Acquisition by the City
- Privately-owned and maintained public open space
- Linear spaces such a landscape setbacks and connections (e.g., woonerfs)

With the exception of City acquisitions, all of these strategies require contributions from developers and/or property owners. As a result, the more development supported in the plan, the more park space can be attained, as illustrated in Table 3.

Transportation & Mobility Improvements - Transportation improvements are consistent across the alternatives, with minor exceptions (see Attachment A). The scenarios, however, with more

[8] Recent changes to State Density Bonus Law identify "super" density bonuses that allow up to 80% density bonuses and an additional 3 stories/33 feet for 100% BMR projects (or unlimited density for projects ½-mile of transit). This program may be a more attractive alternative to a City-initiated program unless the City can offer other incentives, such as streamlined review.

development potential provide more funding and increased ridership (as the number of workers and residents increase) to support implementation of many improvements.

Commercial Retail – The City Council has expressed a desire for preservation of existing retail and retail like uses through the Retail Protection Ordinance. An additional five feet of building height is proposed for residential mixed-use projects with ground-floor retail across all of the alternatives. This bonus is intended to support ground floor retail and commercial uses, which typically have higher floor-to-ceiling heights. Moreover, retail uses generate lower lease rates compared to office and residential uses. The additional height offers a "bonus" that allows a project to reach five stories in height (four residential stories over parking/retail) that can create a more feasible mixed-use project for the developer, while providing an amenity to the community.

Estimating Development Potential of Each Alternative

The tables below provide summary statistics for each alternative. Table 2 estimates the number of housing units, commercial square footage, and park and open space area that could be generated by each alternative. These calculations do not reflect the recent SB330 application at 200 Portage, since it is still only a proposed project. Table 3 reports the population, jobs, and other metrics generated as a result of the realistic potential buildout.

Alternative 1# yields the lowest amount of new development, while Alternative #3 yields the most; Alternative #2 falls in the middle of the two.

Table 2: Potential Development, by Alternative

		New Development		
Land Use	***Existing***	***Alt #1***	***Alt #2***	***Alt #3B[6]***
Net New Housing Units	142			
Realistic Potential[1]	-	500	1,170	1,490
Maximum Potential[1]	-	860	1,620	2,130
Commercial Development (sq. ft.)	853,200			
New Office[2]	-	8,600[3]	33,300[3]	126,600
New Retail[2]	-	7,500	17,600	22,300
Net Change in Commercial[4]	-	-129,100	-14,300	83,800
Parks and Open Space (potential approximate acres) [5]	0	1.9	4.8	7.5
# of Potential Redevelopment Sites (Range = Realistic to Maximum Sites Turning Over)	n/a	16 to 23	37 to 41	37 to 52

[1] Assumes 1,000 to 1,500 sf average unit size

[2] Represents new office and retail development that results from redevelopment. At 395 Page Mill Rd. and 340 Portage Ave., existing office floor area is assumed to be replaced on a 1:1 basis in Alternative #2 and higher basis in Alternative #3B; the 1:1 replacement office floor area is excluded from this figures, but net new floor area is included for Alternative #3B.

[3] Limited professional office use allowed in new mixed-use development

[4] Net change = existing commercial floor area lost due to redevelopment + new commercial floor area

[5] Parks and open space estimates based on 3% to 20% of land area on opportunity sites, as a function of the realistic development potential; includes landscaped setbacks, parks, plazas, and creek improvements.

[6] Alt #3B represents a revised Alternative #3 based on recommendation from the PTC's motion to increase the amount of affordable housing required and the amount of open space.

Note: This table assumes redevelopment of potential opportunity sites, regardless of any pending development projects. Attachment F lists the development projects approved which could supersede the hypothetical development potential shown here.

Source: Santa Clara County Assessor's Office Data, Realquest.com Data, City of Palo Alto GIST Data, Accela Data, and City of Palo Alto, Planning and Development Services Staff.

Table 3: Metrics Based on Realistic Potential

			New Development	
Metric	***Existing***	***Alt #1***	***Alt #2***	***Alt #3B***
Below-Market Rate Housing Units (assumes 15-20% of total)[1]	23	70	180	300
Residential Population [2]	340	1,210	2,840	3,610
Jobs [3]				
Office Jobs	2,460	30	110	430
Retail Jobs	200	10	30	40
Net Change in Jobs	n/a	-415	-44	271
Jobs/Housing Ratio (Housing Units Needed to Support New Jobs)	n/a	50	180	580
Parks and Open Space (acres/1,000 new residents) [4]	0	1.5	1.7	2.1

[1] The City requires new for-sale units to locate BMR units on-site; new rental housing pays an impact fee only. Assumes 15% BMR ratio for Alternative #1 and #2 and 20% BMR ratio for Alternative #3B

[2] Population estimates based on current household sizes in Palo Alto (2.55 persons/household) from 2014-2018 American Community Survey 5-Year Estimates. Assumes 5% vacancy rate of housing units.

[3] Valley Transportation Authority (VTA)'s Congestion Management Program (CMP) ratios for the year 2019. Numbers represent estimates.

[4] Parks and open space estimates based on 3% to 20% of land area on opportunity sites, as a function of the realistic development potential; includes landscaped setbacks, parks, plazas, and creek improvements.

Source: 2014-2018 American Community Survey 5-Year Estimates, City of Palo Alto GIST Data, Accela Data, and City of Palo Alto Planning and Development Services.

Opportunity Sites

Development will unfold over time in the NVCAP area based on the motivations of individual property owners and actions by the City (e.g., site acquisitions, incentives). To estimate the development potential in Tables 2 and 3, City staff developed a methodology for potential buildout on "opportunity sites" in the planning area. The realistic opportunity sites are shown in Figure 5 (and described and mapped in detail in Attachment G).

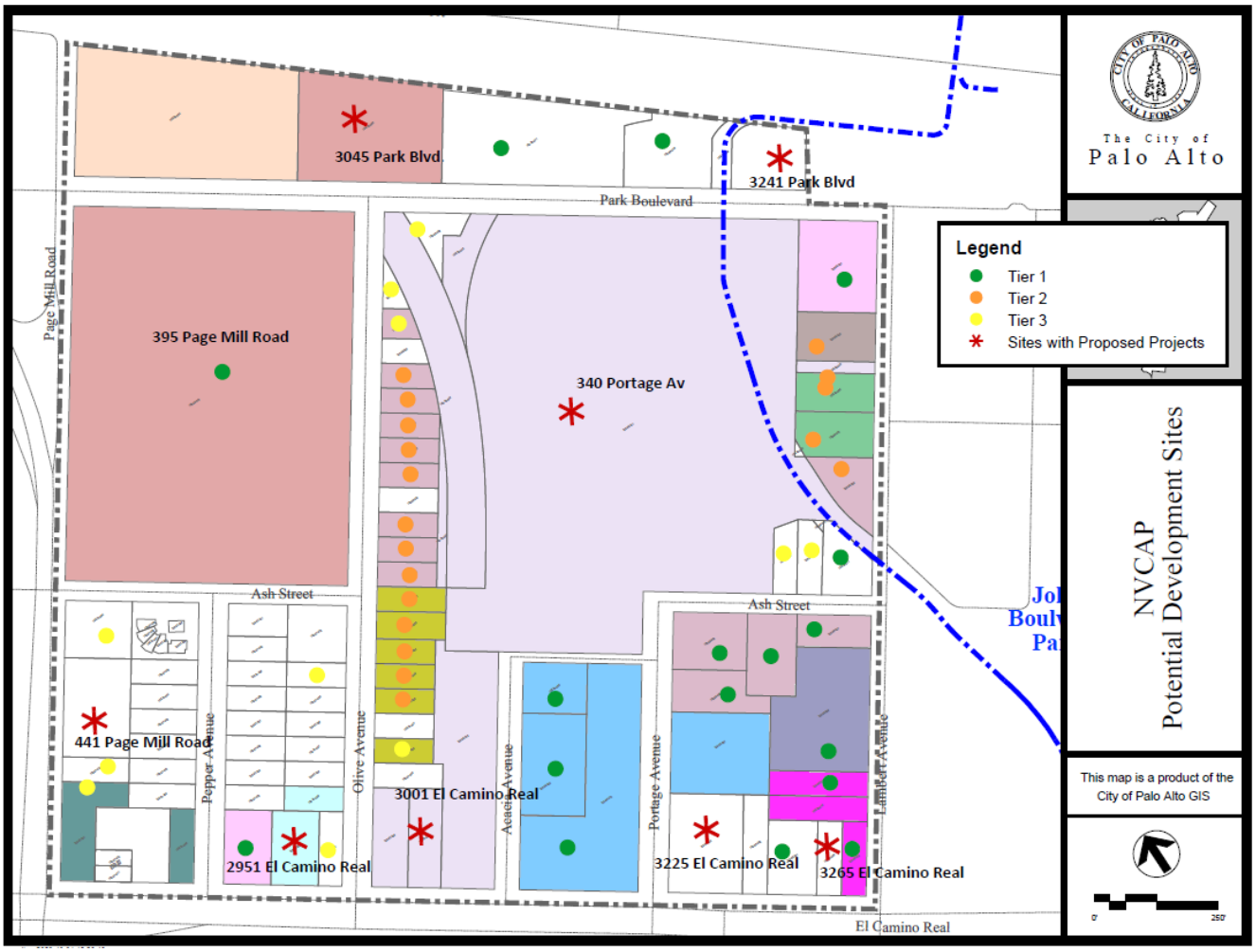


Figure 5: Opportunity Sites

Financial Feasibility

In addition to preferences for one hypothetical alternative over another, it is also important to understand their financial feasibility and whether a private developer is likely to undertake a project within the framework of each alternative. The NVCAP project consultant, Strategic

Economics, has provided a series of analyses testing the feasibility of the current set of alternatives.

- Attachment H analyzes the feasibility of alternatives subject to the existing 15% inclusionary housing requirement and concludes that Alternative #3 is the only feasible alternative in terms of the building typologies and community benefits that can be generated by allowing additional office development.
- Based on a request by the PTC and the PTC's motion to recommend Alternative #3, Attachment I analyzes various scenarios that could feasibly allow for an increase in the inclusionary requirement from 15% to 20% in order to generate additional BMR units without hampering the viability of development. It also analyzes factors that would make Alternative #2 feasible, including the amount of public subsidy required to achieve feasibility.

These findings by Strategic Economics are detailed in the attachments, referenced in the bullet points above, and summarized below.

Strategic Economics identified five feasible housing typologies[9] in the NVCAP area in their January 2020 Report and illustrated in Figure 6, below:

1. Townhomes: three-story, attached units with a typical density of 33 du/acre.
2. Low-Rise Greenway: Typically, four stories with linear open space in front, with a typical density of 107 du/acre.
3. Low-Rise Block: Typically, four stories with central open space, with a typical density of 124 du/acre.
4. Low-Rise Block with Neighborhood Serving Commercial: Typically, five stories with interior courtyards and ground-floor retail. Typical density of 147 du/acre.
5. Mid-Rise Block: These can be up to eight stories with an interior courtyard. The style typically steps back above six stories. Typical density of 159 du/acre.

[9] The analysis assumes ownership developments include the City's 15% inclusionary rate and that rental developments pay the in-lieu fee to support development of affordable housing (in the NVCAP or elsewhere in the City). All the proposed typologies are self-parked.

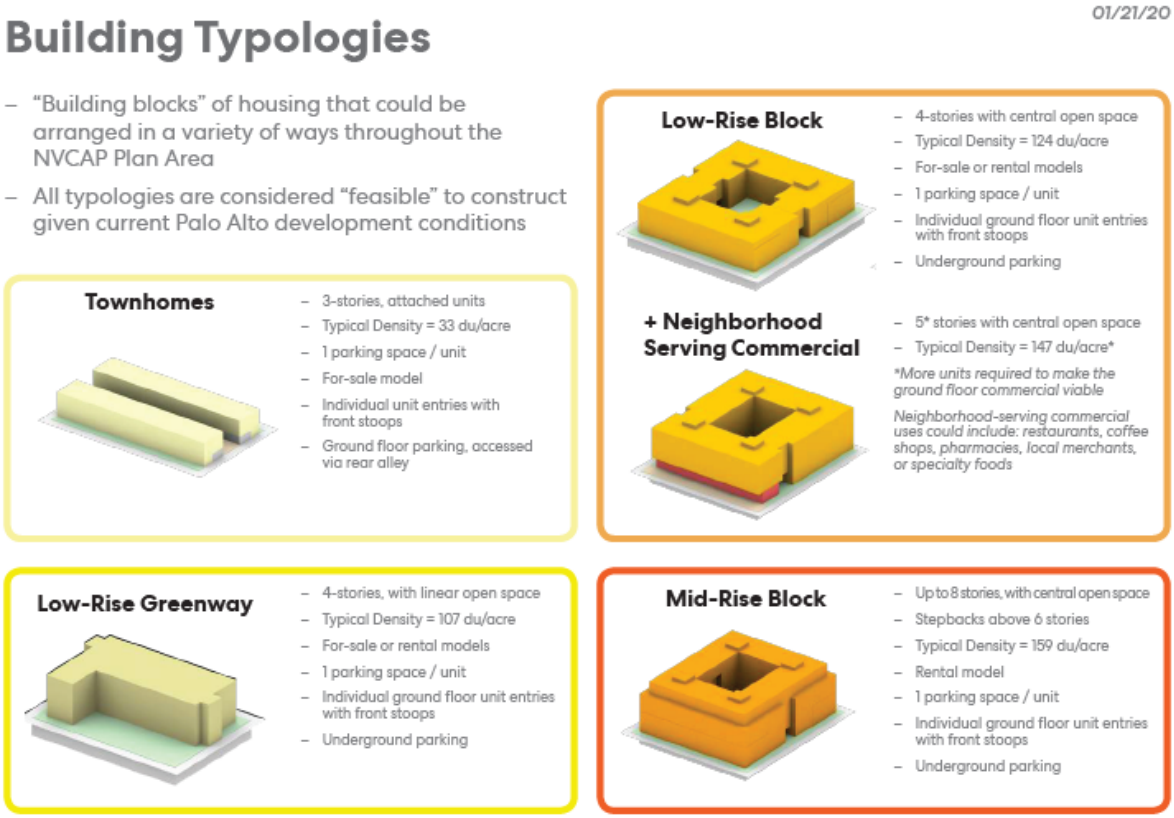


Figure 6: Development Prototypes

The eight-story mixed-use prototype (housing with ground floor retail) was generally not feasible nor desired by community members. In general, retail demand and feasibility can be expected to grow in tandem with additional housing/residential population. Additional incentives will be needed to support ground-floor retail in a mixed-use configuration. Alternative #3B aims to provide these incentives through modifications to parking requirements and additional building height for buildings with ground-floor commercial uses.

Just as the City Council is being asked to weigh the tradeoffs between benefits and impacts, developers go through similar calculations. The benefits to the developer in terms of rents and return on investment need to exceed the cost of development, including the provision of community amenities. Some of the community amenities, such as open space and retail, add value to a project, drawing in customers and potential tenants. However, these and other amenities, add expenses to the project. As Strategic Economics' reported in January 2020, new office uses can likely contribute more in terms of community benefits than residential or retail, given its higher net value.

Across the three alternatives, Strategic Economics concludes in Attachment H that Alternative #3 is the only financially feasible scenario. It allows for more efficient housing types because of

its lower parking requirement and a greater mix of uses, and therefore represents the scenario most likely to deliver community benefits. Based on this finding, the PTC honed its focus on this alternative as the potentially preferred alternative but requested more information about (1) the public subsidy required to make Alternative #2 financially feasible; and (2) whether additional BMR housing (i.e., 20% inclusionary requirement) would be feasible in Alternative #3.

This further analysis is summarized in Table 4 and explored in Attachment I, which concluded that:

- For-sale condo prototypes, especially townhomes, could support a 20% inclusionary requirement, including deeper levels of affordability (15% for moderate income households and 5% for very low income households). (Not shown in Table 4)
- 4-story (40-45 feet) residential only prototypes are unlikely to support more than a 15% inclusionary housing requirement, if parking is located underground. (Second column of Table 4)
- 4-story (45 feet) mixed use prototypes (3 stories of rental apartments over ground-floor retail) could support between 15% and 20% inclusionary requirement if at least a portion of the parking is above-ground in a podium (below-grade adds too much expense and makes the model infeasible). (Third column of Table 4)
- 5-story (55 feet) mixed use prototypes (4 stories of rental apartments over ground-floor retail) are more efficient by comparison and could likely support a 20% inclusionary requirement, including 5% for very low income households. Parking is assumed below-grade and in the ground-level podium. (Last column of Table 4)

Table 4: Development Likelihood for Alternative 3B Rental Prototype Options

	Residential Only	*Mixed-use*	*Mixed-use*
	40-45 feet	*45 feet*	*55 feet*
Yield on Cost per Unit			
Scenario 1 (15% BMR targeting VLI, LI, Mod)	4.82%	5.11%	5.31%
Scenario 2 (15% BMR targeting LI and Mod)	4.89%	5.19%	5.39%
Scenario 3 (20% BMR targeting VLI, LI, and Mod)	4.74%	5.03%	5.22%

Highly Likely – YOC is 5.25% or higher
Somewhat Likely – YOC is over 5.0%
Not Likely – Net revenues are positive but YOC is below 5.0%
Infeasible – Net revenues are negative

Note: Yield on cost (YOC) is measured as the net operating income divided by total development costs.
Source: Strategic Economics.

The Strategic Economics work highlights the various levers that affect project costs and feasibility and that help make Alternative #3B viable:

- Building Height: The additional five feet of height (from 50 to 55 feet) allows for a higher quality retail space while allowing four stories of residential to be built above the first floor, rather than just three stories.
- Parking: Reduced residential and commercial parking requirements allow parking to be constructed in a podium above-grade, rather than underground.
- Depth of Affordability: It is easier (less expensive) for developers to provide BMR units at Moderate Income levels (and therefore more feasible) compared to Very Low Income levels. However, this affordability level may not desirable to decision-makers and community members. Table 4 and Attachment I explore the effects of different income levels on project feasibility.

Policy Implications:

This section analyzes the outcomes and relative characteristics of each alternative.

Overall, the more development generated, the more opportunities for the City to obtain desired amenities such as below-market rate housing, parks and open space, creek improvements, and neighborhood retail. With new development, however, there may be impacts that need to be mitigated, such as potential displacement, vehicle traffic, and noise.

This section describes preliminary policy strategies that aim to achieve the plan goals while mitigating potential impacts.

Tradeoffs and Relationship to City Council Adopted Goals

The North Ventura neighborhood has many great attributes that could enable a walkable, amenity-rich, and vibrant transit-oriented neighborhood. Although the neighborhood is close to transit and public facilities, it lacks a significant residential population and retail base, and has gaps in pedestrian and biking infrastructure. To promote walking and biking as the primary means of transportation, and to sustain neighborhood retail and new public open space, the plan area will need walkable destinations and population density that leverage its location near transit and public facilities. An increase in population is necessary to generate a customer base, impact fees, and new development (which funds off-site public improvements) that can support these community amenities without substantial public subsidy and without the need for vehicles to drive to destinations.

In this way, each alternative represents a tradeoff. It comes with a different set of potential impacts and benefits, as illustrated in Figure 7. Alternative #1 would generate the least amount of parkland, affordable housing, and other benefits—without public subsidy—but is likely to be less impactful in terms of changes to noise and traffic. It is also the least feasible, since it does not provide sufficient regulatory changes or incentives to spur redevelopment. Alternative #3 would generate the most opportunities for community benefits, but may have more impacts on the community. It is the only alternative that is likely to be financially feasible since it offers more incentives for redevelopment. Alternative #2 falls in the middle of the two.

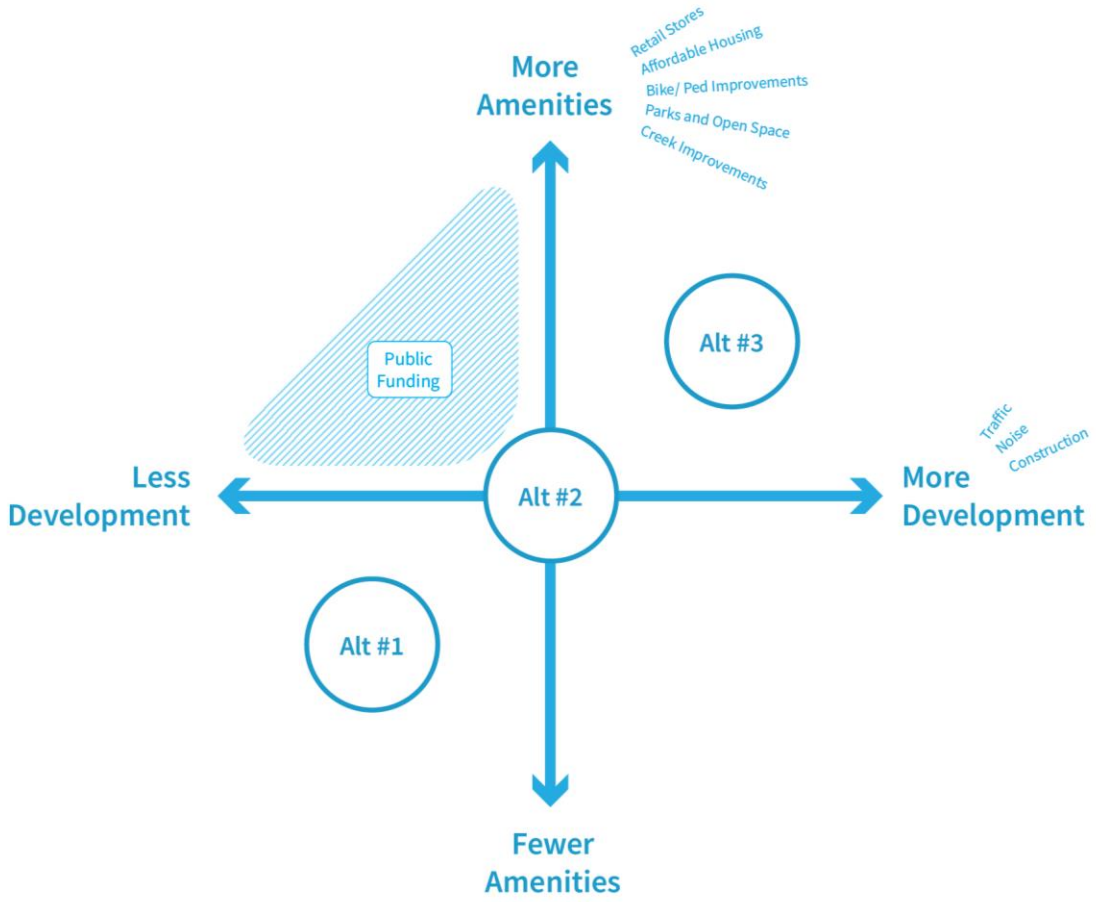


Figure 7: Impacts and Benefits, by Alternative

Table 4 further illustrates the dynamic of these tradeoffs as they relate to the City Council adopted goals for the NVCAP. Alternative #3 does the best job of adding to the housing supply and improving transportation connections and multi-modal facilities. Alternative #2 is the most successful in balancing the variety of neighborhood and citywide interests. All of the alternatives would be able to achieve sustainability and urban design goals. Notably, this is a subjective exercise based on City staff and consultants' professional interpretation of the alternatives compared to the City Council's adopted goals. This table is intended to be illustrative and used for discussion purposes.

Table 4: Relationship to City Council Adopted Goals

Goal	***Alt #1***	***Alt #2***	***Alt #3B***
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	✓	✓	✓

Transportation and Mobility

The planning area is expected to see a shift in travel and traffic patterns, as commercial uses are replaced with residential uses. Due to project budget constraints, analysis of potential traffic impacts is not available at this time. Once the City Council selects a preferred alternative, consultants will prepare a detailed Traffic Impact Analysis (TIA). The TIA will evaluate potential impacts of the preferred land use program in two ways: traditional intersection level of service (LOS) and vehicle miles traveled (VMT). Modeling will evaluate all travel modes including vehicles, transit, bicycles, and pedestrians. It will compare the project's impacts to existing conditions and cumulative conditions based on other projects in the city and region.

Parks and Open Space

Maximizing parks and open space has been a widely shared goal across the WG. The City's adopted Comprehensive Plan features Policy C-4.6, which provides direction to use the National Recreation and Park Association (NRPA) Standards as guidelines for locating and developing new parks. At the time of adoption, this policy indicated the park standard to be two acres/1,000 people. [10]

[10] Policy C-4.6 cites NRPA park standards from the late 1990s: For neighborhood parks, they should be at least two (2) acres in size, although sites as small as ½-acre may be needed as supplementary facilities. The maximum service area radius should be ½-mile. Two acres of neighborhood park land should be provided for each 1,000 people.

In addition to the Comprehensive Plan policy, the 2017 *Palo Alto Parks, Trails, Natural Open Space & Recreation Master Plan* has Policy 1.B that also references using NRPA standards for developing new parks and provides a four acres/1,000 residents guideline for a ½ mile service area. This standard is more recent than the Comprehensive Plan policy.

Notably, none of the alternatives proposed are able to achieve the four acre/1,000 residents goal identified in the Comprehensive Plan and Parks, Trails, Open Space and Recreation Master Plan. The WG nearly unanimously supports achieving this ratio. However, the plan would need to identify five to 14 acres of parkland, under the "realistic" buildout scenarios, to achieve these goals. The operationalizing of this ratio into a development standard may be infeasible, resulting in little to no redevelopment in the plan area. This higher parkland goal is not financially feasible for the City or the developer in this transit-oriented infill locations, when combined with other community benefits, such as below-market rate housing and ground-floor retail.

Staff recommend that the NVCAP could require any park fees collected for developments within the planning area be used within ¼ mile of the planning area to support new open spaces close to the new development area. Such land must be located within easy walking or biking distance, and not require residents to cross Page Mill, El Camino Real, or the train tracks. This would generate a source of funds that the City can use to purchase parcels to be developed in public parks.

Impacts to Historic Building

As part of the initial assessment of the NVCAP project area, staff retained Page and Turnbull to evaluate potential historic resources in the planning area. Currently, there are no properties within the project boundary that are listed in the City of Palo Alto Historic Inventory, the National Register of Historic Places (National Register), or the California Register of Historic Resources (California Register) nor are there any recorded historic districts. Page and Turnbull's historic resources evaluation (HRE)[11] identified one eligible historic resource in the planning area: 340 Portage Avenue, originally constructed as a cannery, and the associated office building at 3201-3205 Ash Street.

What appears to be one large building at 340 Portage Avenue is composed of approximately ten buildings that were constructed at various times between 1918 and 1949. The office building on Ash Street is a one-story, wood frame building located to the southeast of the former cannery building. The building appears to have been initially built as a dormitory for the cannery employees sometime between 1918 and 1925 and was moved to its current location in 1940. The HRE concluded that these sites were individually significant under Criterion 1 (Events)

[11] Historic Resource Evaluation, 04/2019: https://www.cityofpaloalto.org/files/assets/public/planning-amp-development-services/north-ventura-cap/nvcap-historic-reports-340-portage-evaluation.pdf?t=54966.14

and eligible for listing in the California Register because of their association with the historic cannery industry in Santa Clara Valley, including Palo Alto. The cannery is associated with the Bayside Canning Company, which was owned by a prominent Chinese immigrant, Thomas Foon Chew, and a groundbreaking figure in the canning industry. Mr. Chew was able to make the Bayside Canning Company the third largest fruit and vegetable cannery in the world in the 1920s.

Matadero Creek Improvements

The Matadero Creek runs through a portion of the NVCAP. This once-natural waterway has been channelized in an open, concrete-channel. The creek, managed by the Santa Clara Valley Water District, has limited visibility and currently no public access. Matadero Creek presents an opportunity to return a channelized creek into a naturalized amenity; it could become an asset to the neighborhood instead of an afterthought. Naturalizing, however, is costly and, furthermore, the land is not owned by a public agency and is strictly managed by Valley Water District. Another hardship for major creek improvements is that it is bordered by privately owned land on both sides of the Valley Water District 60-foot easement. This means that any restoration efforts will need to either remain within the creek easement, obtain cooperation and permission of adjacent land owners to use their property, or require acquisition of the adjacent parcels.

The City contracted with Wetlands Research Associates (WRA) to evaluate the feasibility of levels of naturalization and improvements to the creek and to develop conceptual designs of the improvements. WRA developed five concepts reflected in the final report, *Matadero Creek Renaturalization Conceptual Alternative Analysis*[12], ranging from naturalization within the easement area to a full naturalization and expansion into Boulware Park. The Parks and Recreation Commission (PRC) and WG prefer this latter option (Option #3) as the ultimate aspirational goal. Staff, however, encourage Option #1A that remains within the creek easement, thus preserving land for housing development while also allowing some naturalization. Option #1A is included as part of Alternative #3B in exchange for the allowance of additional office floor area. Implementation of any of the creek options will require additional funding from the City or other sources.

Additional background can be found in the meeting staff memo, presentation, and minutes linked below in the footnote.[13]

[12] Creek Report: https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?BlobID=79219&t=68527.88

[13]November 5, 2020 - NVCAP Working Group & PRC Joint Meeting:
Staff Memo: https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?BlobID=78984&t=45418.2
Presentation: https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?BlobID=79148&t=44134.27
Minutes: https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?BlobID=79310&t=45389.68

Schools

The NVCAP does not specifically include provisions for new public school sites. The PAUSD is aware of the area plan being developed, but nothing has been determined regarding impacts at this stage in the process. The analysis for determining educational needs for future residents in the NVCAP will be a considered by PAUSD in conjunction with the needs citywide at an appropriate time in the future.

Major Policy Strategies

Beyond the land and transportation maps, the NVCAP will include a range of policy measures to support implementation of plan goals and mitigate potential impacts. Attachment E explores an initial set of policy strategies that can be undertaken across the alternatives, including:

Generating Affordable Housing: City staff, consultants, and the WG explored various ways to generate market-rate and affordable housing. This includes the following models that leverage private capital, public funds, and commercial development, and tools for fees and assessment districts.

Capturing the Value of Upzoning: If the City chooses to increase the height and density allowed in the planning area, it may provide property owners an incentive for redevelopment. This "upzoning" would add value to existing property owners. A key dynamic that the City should consider is how the City benefits from this rezoning and the resulting increase in private property values. Notably, Alternative #3B aims to capture the value of upzoning by requiring additional below-market housing and open space.

Anti-Displacement Measures: The trend in Palo Alto is that housing is becoming less available and therefore more expensive. Most redevelopment anticipated in the NVCAP will come at the loss of one-story commercial buildings and renter-occupied single-family housing. The plan will need to include strategies to prevent and mitigate commercial and residential displacement, such as through relocation at comparable rent levels. Attachment E details replacement and relocation assistance requirements in accordance with recent changes in State law.

Parking Management: As part of the NVCAP project, ARUP completed a parking occupancy study in Fall 2018 (i.e., pre-COVID) that identified a surplus of parking capacity within the planning area. As the population of workers and residents change as a result of the NVCAP and the end of the pandemic, the City will need to consider strategies to manage parking across the planning area and on individual sites.

Placemaking: A sense of place can be instilled by landmarks, signage, iconic buildings, signature trees, active ground floors, nodes of activity, entries to the planning area, important gathering places, and key uses. Incorporating the history of the 340 Portage cannery into the site should

extend beyond plaques; this history should be a theme that ties public and private spaces together.

These and other policy strategies will continue to be refined through preparation of the plan.

Industrial Zoned Parcel

There are six parcels identified as opportunity sites that have the General Manufacturing (GM) zoning designation. The Comprehensive Plan contemplates allowing multi-family housing on these properties with Light Industrial land use designations, but this allowance is not codified in the Zoning Ordinance. To accommodate residential uses, these sites would need to be rezoned to an appropriate designation or the GM zone district updated to allow for residential uses. On the one hand, these represent larger sites that could generate more units; the railroad-adjacent sites in particular, would have fewer visual impacts on lower-height uses. On the other hand, the City has a limited number of GM-zoned land that allow for light industrial uses.

Comprehensive Plan Policy L-5.4 directs maintenance of "the East Bayshore and San Antonio Road/Bayshore Corridor areas as diverse business and light industrial districts." Although this policy specifically refers to areas not within the NVCAP plan area, the decision to eliminate additional GM zoned parcels may not be the desired direction for the City. The Council may want to consider whether the City should retain such properties for R&D and light industrial uses, and the range of job types and wages that such uses typically generate.

Resource Impact:

The majority of the NVCAP project funding is from the Valley Transportation Authority (VTA) Priority Development Area grant ($638K). In compliance with the grant requirement, the 15% local funding match ($112K) was achieved with the donation of private funds from the Sobrato Organization. The Sobrato Organization also donated an additional $138K for the environmental review study of the NVCAP. Additional General Funds ($17,700) were used for the historic evaluation by Page and Turnbull and the Matadero Creek analysis by WRA; and $62K of FY2021 department salary savings was allocated to project management (due to reduced staffing). In 2021, the City was awarded $125K from the Local Early Action Planning (LEAP) grant to support the NVCAP. The funding sources and funds used are listed below:

Funding Sources:

1.	Caltrans Grant	$638,000
2.	15% Matching Donation	$112,000
3.	CEQA Private Donation	$138,000
4.	FY2021 Salary Savings	$ 62,000
5.	General Funds	$ 17,700
6.	LEAP Grant (2021)	$125,000

Total	*$1,092,700*

Funds Used/Allocated

1. Perkins & Will - funded	$889,600
2. Perkins & Will - unfunded	$367,000
3. WRA – Creek Analysis	$ 89,000
4. Project Management	$ 62,000
5. Page & Turnbull – Historic	$ 13,200
6. Travel and Meetings	$ 15,000
Total	*$1,435,800*

In October 2019, the City Council approved an expanded scope of work for the NVCAP project and contract with the consultant, Perkins & Will. Subsequently, the City Council did not approve the additional funding needed ($367K) for the expanded contract. As summarized above, the project is underfunded by $343K. City staff have made every attempt to complete the essential tasks by eliminating other tasks and/or by doing the work in-house. For example, due to the request for more community engagement, but without sufficient funds, City staff led the WG and outreach meetings from February 2020 until the present. With that said, the City was not able to effectuate an expansion of the project scope. Per the grant agreement, the City must complete this NVCAP project by December 1, 2023 or risk forefeiting the grant funds. In that scenario, the City would need to repay any grant funds expended towards the project ($420K to date).

The project funding is insufficient to conduct analyses, study, and fully develop more than one preferred alternative. Staff requests City Council to provide direction on the preferred alternative. That alternative will become the focus of staff and consultant analysis, study, and further refinement.

Timeline:

After the City Council provides direction on a selected alternative, staff will advise the consultant team to complete additional study and refinement of the alternative, and undergo technical analysis, including a traffic study. Staff will bring back the refined NVCAP to Council for review and endorsement. Following Council direction, the environmental review will begin.

Environmental Review:

The current action requested of the City Council 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 (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.

Attachments:

Attachment A: Alternative Concepts: Land Use, Transportation, Open Space (PDF)
Attachment B: City Council Adopted Goals and Objectives (PDF)
Attachment C: Community Outreach Summary (DOCX)
Attachment D: Opportunities and Constraints (DOCX)
Attachment E: Policy Strategies (DOCX)
Attachment F: Development Projects, May 2021 (PDF)
Attachment G: Opportunity Sites Methodology (DOCX)
Attachment H: Strategic Economics Financial Feasibility Memo, November 2020 (PDF)
Attachment I: Strategic Economics Additional BMR Feasibility Memo, May 2021 (PDF)

Alternative 1

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
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 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

Retain Office/ Industrial Designation

Duplexes
Rezone to R-2

Area of Stability
No change from current standards

Residential/Retail Mixed Use Corridor

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

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/ Industrial Designation

Four-Plexes
Assumes lot consolidation

Allow Duplexes

Residential/Retail Mixed Use Corridor

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

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 3B

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' w/ 70' bonus
Height transition down towards Olive

Retain Office/ Industrial Designation

Six-Plexes
Assumes lot consolidation

Allow Duplexes

Residential/Retail Mixed Use Corridor

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

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

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 Open Space Concepts

Park
Creek Amenity
Creek Path
Linear Park/Woonerf
Landscape Setback/Buffer
Ground Level Open Space

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

Creek Amenity & Trail

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

Transportation Improvements

Park Blvd. & Portage Ave.
Consider traffic signal
Remove 1 of 2 curb cuts
Traffic calming to reduce conflicts between all modes

Park Boulevard
Remove street parking
Reduce curb cuts
Widen bike lane

Olive Avenue
No street parking (northside)

Ash Street
Consider one way, southbound
Ped/Bike Signal & Crosswalks at Page Mill (County permitting)
Speed humps or raised intersections at Pepper and Olive

Creek Trail

Lambert & Ash Street
Park connection, raised intersection

El Camino Real
12’ effective sidewalk width

Improved Bike/Ped/Vehicle Connection

New Bike/Ped Connection

Improved Intersection

Speed humps

Note: Studies and technical analysis required to finalize improvements.

0' 190'

North Ventura Coordinated Area Plan
Project Goals, Objectives, Milestones and Proposed Boundary
February 12, 2018

Proposed NVCAP Goals

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, 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.

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.

Proposed NVCAP Objectives

1. Data Driven Approach: Employ a data-driven approach that considers community desires, market conditions and forecasts, financial feasibility, existing uses and development patterns, development capacity, traffic and travel patterns, historic/cultural and natural resources, need for community facilities (e.g., schools), and

other relevant data to inform plan policies.

2. Comprehensive User Friendly Document and Implementation: Create a comprehensive but user-friendly document that identifies the distribution, location and extent of land uses, planning policies, development regulations and design guidelines to enable development and needed infrastructure investments in the project area

3. Guide and Strategy for Staff and Decision Makers: Provide a guide and strategy for staff and decision-makers to bridge the gap between the goals and policies of the Comprehensive Plan and individual development projects in order to streamline future land use and transportation decisions.

4. Meaningful Community Engagement: Enable a process with meaningful opportunities for community engagement, within the defined timeline, and an outcome (the CAP document) that reflects the community's priorities.

5. Economic Feasibility: A determination of the economic and fiscal feasibility of the plan with specific analysis of market place factors and incentives and disincentives, as well as a cost-benefit analysis of public infrastructure investments and projected economic benefits to the City and community.

6. Environmental: A plan that is protective of public health and a process that complies with the requirements of the California Environmental Quality Act.

Attachment C: Community Engagement

City staff and consultants have engaged in a tremendous amount of community outreach, providing numerous opportunities for public engagement and meaningful input. Stakeholders, decision-makers, residents, and other community members have volunteered their time to thoughtfully consider the challenges and opportunities afforded by this project, and contribute to the evolving plan ideas.

To date, the outreach program has included the following the following engagement and results:

Working Group Meetings

Staff and WG members have met regularly since October 2018. As of the preparation of this report, staff has held 17 meetings with the NVCAP WG. The project website (https://www.paloaltonvcap.org/) lists all the meetings, topics, and supporting materials.

On October 8, 2020[1], the WG reviewed and provided feedback on the draft alternatives. The Group provided a wide range of comments, which are summarized below:

- **Height & density -** WG members generally supported height and density increases and bonuses on El Camino Real, south of Acacia, where there are no abutting R-1 parcels.
- **Transportation -** WG members generally supported transportation improvements, including prioritizing bicycle and pedestrian facilities and traffic calming measures.
- **Parks -** WG members supported the large parks, small plazas, and public access and improvements to Matadero Creek, but wanted to see more park land in the plan area. Specifically, the WG wants the City to achieve the 4 acres/1000 residents identified in the masterplan.
- **Housing -** WG members generally expressed support for below-market rate housing; there was mixed support for more market rate housing.
- **Traffic -** Several WG members wanted to understand traffic impacts at greater levels of detail.
- **Heights and Single Family Homes -** Several WG members preferred to retain the City's building height reductions to 35 feet when commercial zoning districts are adjacent to residential zoning districts—in particular to protect R-1-zoned properties near Olive and Pepper from shadow impacts.
- **Historic Preservation -** Several WG members preferred to retain all or a portion of the cannery building (especially the monitor roofs) at 340 Portage Ave. and wanted to understand the implications of removing the building.
- **Summary/Preferred Alternative**: Five WG members preferred Alternative 2 (with modifications), expressing a desire for more modest expansion of residential uses and minimal new office floor area. Three WG members preferred Alternative 1. One member preferred Alternative 3. Four WG members expressed no preference; and one WG member was unresponsive.

[1] October 8, 2020 - WG Meeting:
Staff Memo: https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?BlobID=78672&t=79690.16
Minutes: https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?BlobID=78775&t=59942.68

Stakeholder Group Meetings

Stakeholder groups including property owners, commercial tenants, area residents, Palo Alto Unified School District and affinity groups/advocates (affordable housing representatives, bicycle groups, environmental representatives, etc.) were identified early in the NVCAP process and their input was gathered through a series of six meetings. The summaries of these meetings are available online: https://www.paloaltonvcap.org/stakeholder-meetings.

Staff also presented to the Palo Alto Unified School District Committee on December 2018, on February 20, 2020, and on October 15, 2020. Palo Alto Unified School District Board Members indicated an interest to site a new school to serve new families conceived in the draft alternatives. The City is supportive of working together to understand student yield from proposed typologies and suitable sites.

During the development and public review of alternatives, City staff have continued discussions with stakeholders, such as property owners and affordable housing advocates to gather their feedback on evolving policy ideas and aspects of the alternatives.

Decision Maker Meetings

City Council Meetings **-** Since the initiation of the NVCAP planning work in October 2018, three check-in meetings took place with the City Council. At the March 2019 Town Hall meeting, the City Council received an update on the NVCAP project, the existing conditions analysis, and expanded the scope of the planning process. When presented with a contract for expanded services in August of 2019, the Council approved the amended contract that included the expanded scope. The Council, however, in October 2019 did not approve additional budget to support that scope.

Historic Resources Board (HRB) Meeting **-** An HRB meeting was held in July 2019 (Staff Report # 10499) to review and discuss the Historic Resources Evaluation Report and the property survey, conducted by Page and Turnbull in January 2019.

Parks and Recreation Commission (PRC) Meetings **-** The PRC met twice, January 2020 and November 2020, to discuss, provide input, and finally review the final Matadero Creek Renaturalization Conceptual Alternative Analysis. (January Staff Report; November Staff Report)

Planning and Transportation Commission (PTC) Meetings **-** The PTC had a Study Session in April 2020 (Staff Report # 10918) to review and comment on the first drafts of the planning alternatives proposed by staff and consultants. The PTC met on December 9, 2020 (Staff Report #11730) and January 13, 2021 to review and debate the alternatives, and requested additional analysis which staff and consultants provided (Staff Responses 1/13/21). At its March 10, 2021 hearing (Staff Report #11991), the PTC recommended Alternative #3 as the preferred alternative (4-2 vote), with two changes: exploring modifications to feasibly increase the amount of below-market rate housing from 15% to 20% and increasing the amount of open space.

Other Community Engagement

Community Workshops - The first community workshop was held in February 2019 (Meeting info: https://bit.ly/NVCAPworkshopFeb2019). The community feedback helped to frame the basis of the proposed draft plans. The City hosted the second community workshop on February 27, 2020. The workshop solicited input on the three draft plan alternatives and endeavored to identify community priorities on various topics (Presentation: https://bit.ly/NVCAPworkshopFeb2020).

Community Surveys **-** Staff prepared two online community surveys (April 2020[2] and October 2020[3]) to solicit input from the members of the community. The surveys aimed to reach community members unable to attend the workshops. An online questionnaire on the draft alternatives was created by staff to solicit input from the community at-large in October 2020. About 30 community members responded. The majority of the participants preferred Alternative 3, supporting higher residential densities and heights, allowing small office footprints. There was general agreement on the proposed transportation improvements, and parks and open space proposals. Opinions varied over preservation of the cannery building. Some preferred removal of old cannery building for better and efficient use of the existing space, while others supported partial retention. A link to the responses is provided in the footnote.[4]

Project Website **-** To augment the community engagement efforts, the city hosts a robust project website (https://www.paloaltonvcap.org/) that serves as the primary online portal for community engagement. It includes information on project updates, upcoming events, updated summaries of workshops and staff reports.

Public Noticing / Mailing List **-** Notices of all public hearings and WG meetings were published in accordance with the regulations set forth by the Palo Alto Municipal Code and City regulations. Additionally, an extensive emailing list consisting of over 430 interested community members has been developed and maintained by city staff and is used for disseminating information to all interested individuals.

[2] April 2020: https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?BlobID=76365&t=68497.3
[3] October 2020: https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?BlobID=79506&t=75708.88
[4] Survey Responses: https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?BlobID=79506&t=75708.88

Attachment D: Emerging Opportunities and Constraints

Following the preparation of the existing conditions analysis in 2018, several additional opportunities and constraints have emerged. The Council may wish to consider these factors as it reviews the alternatives.

COVID-19 Global Pandemic – The COVID-19 global pandemic resulted in a Shelter in Place Order in Santa Clara County on March 17, 2020. Since that time, Palo Alto, Santa Clara County, and California have endured sheltering in place, modest re-openings, renewed closures when COVID-19 transmission and hospitalizations have spiked.

Professionals in a number of fields have tried to interpret the long-term impacts of COVID-19. Three questions that are particularly relevant to the NVCAP: (1) Will employees who can work from home return to their offices? (2) Will the Bay Area population continue to grow? (3) Will the public continue to use Caltrain?

While the answers to these questions cannot be completely known, there are indications that employers will explore "hybrid" options that include working from home and office-based work, and that in the long-run the Bay Area population will continue to grow. While the impacts of COVID-19 should certainly be accounted for by the City, in the long-term staff believe that both office and residential uses in Palo Alto—and in North Ventura specifically—will remain desirable.

Housing Element Update & 6th Cycle RHNA – Every eight years, the California Department of Housing and Community Development (HCD) determines how many housing units a region must add to meet projected population growth. The Association of Bay Area Governments (ABAG) then develops a methodology to assign the region's allocation to individual jurisdictions. Based on the preferred methodology developed by ABAG, Palo Alto anticipates an allocation of 6,086 housing units for the 6th RHNA Cycle.

The City will need to identify and potential rezone housing opportunity sites throughout Palo Alto to accommodate this target. The current Housing Element identifies 19 housing opportunity sites in the NVCAP, totaling 364 units. Unless permits are issued for housing development on these sites in advance of 2023, these sites cannot be re-used in the Housing Element without significant zoning changes.

The Council may consider the NVCAP's role in providing housing for Palo Altans, and the NVCAP's role in helping the City meet its legal obligations to identify housing opportunity sites. The 6,086 units must be distributed across Palo Alto in an equitable manner. Nevertheless, the project area presents an opportunity to accommodate some of the projected growth in an area served by rapid commuter transit and located walking and biking distance to significant job centers (e.g., the Research Park and Stanford University).

200 Portage Avenue – On November 18, 2020 the City received a pre-application for the development of townhomes on a portion of the site generally known as 340 Portage (or colloquially as "the Fry's site").[1] The applicant filed the pre-application under the regulations provided by SB 330. Known as the Housing Crisis Act of 2019, SB 330 means that:

(1) Upon submittal of an application and a payment of the permit processing fee, a housing developer is allowed to "freeze" the applicable fees and development standards that apply to their project while they assemble the rest of the material necessary for a full application submittal.

(2) The project must have no more than 5 hearings, including appeal hearings;

(3) Cities are prohibited from downzoning certain parcels, adopting new design review standards that are not objective, and cannot issue a moratorium on housing development.

On March 31, 2021, the property owner submitted a formal application (within the statutory timeframe required by SB330), with a proposal for 91 for-sale townhomes.

The submission of this SB 330 application significantly impacts the NVCAP. While some of the proposed changes that affect 340 Portage could be adopted (as long as they do not downzone the parcel), they may not be realized if the townhomes are built. Furthermore, the proposed requirements for open space and other community benefits may also not be imposed or realized as the development requirements for the 200 Portage are now effectively frozen.

Planned Communities – The Palo Alto City Council voted to revive the use of Planned Communities (under a nickname of "Planned Home Zoning"). Proposed PHZs were to include at least 20% deed-restricted Below Market Rate housing units. The primary benefit of the PHZ would be the housing provided. The City Council conducted a pre-screening for a PHZ at 2951 El Camino Real. The proposal included 113 units of housing, 5,000 square feet of office space, 1,000 square feet of retail. The project has not submitted a formal application; and it is unclear at this time if or when the project may advance.

[1] More information about SB 330 and 200 Portage:
https://www.cityofpaloalto.org/News-Articles/Planning-and-Development-Services/200-Portage-Avenue

Attachment E: Major Policy Strategies

Beyond the land and transportation maps, the NVCAP will include a range of policy measures to support implementation of plan goals and mitigate potential impacts.

1. Generating Affordable Housing

The Working Group worked at length to explore various ways to generate affordable housing.

Limited Equity Cooperative: A limited equity cooperative is a homeownership model in which residents purchase a share in a development (rather than an individual unit) and commit to resell their share at a price determined by formula. The resale price is often less than the "market price" were the unit not part of the cooperative. The arrangement that maintains affordability at purchase and over the long term. This strategy has been successfully done in New York and in Davis, CA, among other places.

Office Conversion: To mandate that office become housing, the City would need to conduct an amortization study and determine the date by which the office use would need to cease. Ceasing office use would not automatically turn the office building into housing; the property owner would need to undertake significant upgrades to the properties in order to convert the existing building to housing or, more likely, demolish the buildings to construct housing. However, this strategy does not provide any funding to support the development of the housing and only provides the required on-site BMR housing as required by the local municipal code.

Commercial Linkage Fee: Commercial Linkage Fee (CLF) became effective in Palo Alto in 2017. CLF is a standard tool used by local governments to generate funds for affordable housing and support the development of affordable housing in tandem with new commercial development and associated employment. In this way, new commercial development is theoretically supporting the construction of housing to support additional employees, thereby improving the jobs/housing balance. This fee does not generate BMR housing per se, but would generate BMR housing based on the existing inclusionary housing requirement and can be used to leverage other sources of funding. The NVCAP could also support utilizing funds captured within the NVCAP boundaries on BMR projects within the planning area.

Jobs- Housing Linkage Policy: A jobs-housing linkage policy requires that commercial space be matched by the development of housing for the workers associated with the new commercial space. In 2019, the City of Mountain View adopted a Jobs-Housing Linkage Policy as part of the East Whisman Precise Plan, which requires commercial developers to partner with residential developers through a credit system. A planning area-wide policy that requires new housing development to go hand-in-hand with new office development, ensuring that commercial development helps subsidize residential redevelopment.

Establish More Housing-Focused Development Standards: Adjusting development standards can decrease the cost of construction, allowing more units to be developed. The City has implemented development standards to encourage more housing development, including BMR units. Staff continues to explore additional development incentives. Some suggested development standards:

- Allow for higher housing density and taller building heights, which results in more required market rate units and therefore more BMR units through greater site efficiency and reduced per unit development costs.
- Allow for higher office square footage in return for funds to help subsidize BMR units.
- Reduce the parking requirement, which reduces the cost of the housing.
- Support alternative types of housing that are "affordable by design," such as: co-living, studios, micro units.

Community Land Trust (CLT): A Community Land Trust is an organization that buys residential properties, keeps ownership of the ground beneath the buildings, and then rents or sells the units back to low-income residents. The tenant rents the housing only; the buyer owns the housing only; neither has rights to the underlying land. It's a strategy that does two things traditional government-subsidized affordable housing does not: it guarantees the property will remain affordable forever, and it gives residents the chance to build equity in their home.
There are at least seven operating in the Bay Area, including in Oakland, San Francisco, East Palo Alto and Sonoma County.

Deed Restrictions to Cover "Missing Middle" Housing: Deed-restrictions are a mechanism for preserving the long-term affordability of units whose price was reduced to below-market levels through a government or philanthropic subsidy, inclusionary zoning or affordability incentive. Deed restrictions help to safeguard the long-term value to the community of the initial investment in affordable homeownership by limiting any subsequent sales of the home to income-eligible borrowers at an affordable price.

Create a Fundraising Program for Housing: The non-profit group Santa Cruz Gives is a holiday fundraising program in Santa Cruz County. Their goal is to create a new network of donors and increase local giving via crowdsourcing to various groups/causes. One program that funds are donated to is Housing Matters; these funds are used for assistance programs and temporary housing. Housing Matters partners with individuals and families to create pathways out of their homelessness into permanent housing. San Francisco recently used this model to leverage private dollars to access other financing in the development of supportive housing.

Similarly, Facebook Catalyst Housing Fund is helping developers build, rehabilitate or preserve housing. Through a series of loans and grants, Facebook's Catalyst Housing Fund is helping developers build, rehabilitate or preserve about 550 units of affordable housing near its Menlo Park headquarters—70% of which are reserved for residents in the region's lowest income brackets.

Housing Trust Silicon Valley's TECH Fund (Tech + Equity + Community + Housing) is an initiative created by Housing Trust Silicon Valley to create opportunities for philanthropists and large Bay Area employers to be part of the affordable housing solution. The fund began in March 2017 with an initial investment from the Cisco Foundation that has since been followed by investments from Grove Foundation, LinkedIn, the David and Lucile Packard Foundation, Pure Storage and Sobrato Family Foundation. Housing Trust to date has raised $52 million for the TECH Fund to be revolved over the course of a ten-year investment period – at the end of which TECH Fund investors receive a modest return on their investments in addition to the original investment being repaid and, most importantly, having created 10,000 affordable housing opportunities during that time.

Business Tax: A business tax could create income to fund local services, infrastructure, programs, and other public needs, including funding affordable housing. Currently, Palo Alto has no business tax.

Establish a Special Assessment District Tax to Subsidize an Affordable Housing Development Fund: Special Assessment financing could be a successful economic development tool, targeted to enable development and redevelopment projects as well as leverage other financing tools. A special assessment tax is a surtax levied on property owners to pay for specific infrastructure projects, but can include development or preservation of affordable housing. The tax is charged only to the owners of property in the neighborhood that will benefit from the project. That neighborhood is called the special assessment district.

Low Income Housing Tax Credit (LIHTC): This funding provides tax incentives to construct or rehabilitate affordable rental housing for low-income households. The LIHTC subsidizes the acquisition, construction, and rehabilitation of affordable rental housing for low- and moderate-income tenants. The federal government issues tax credits and State housing agencies then award the credits to private developers of affordable rental housing projects through a competitive process. Developers generally sell the credits to private investors to obtain funding. Once the housing project is placed in service (essentially, made available to tenants), investors can claim the LIHTC over a 10-year period.

2. Value Capture of Upzoning

If the City chooses to increase the height and density allowed in the planning area, it may provide property owners an incentive for redevelopment. This "upzoning" would add value to existing property owners that they can monetize by selling the property or redeveloping at greater densities than are currently achievable. A key dynamic that the City should consider is how the City benefits from this rezoning and the resulting increase in private property values.

Many Working Group and community members have stated a desire for certain community benefits, such as affordable housing, park space, creek restoration, and neighborhood retail. Some of these amenities add value to a project, drawing in customers and potential tenants. These amenities, however, also add expenses to a developer's proforma. As Strategic

Economics' reported in January 2020, new office uses can likely contribute more in terms of community benefits than residential or retail, given its higher net value.

Finding the balance between requiring enough amenities to meet plan goals and not asking so much that development becomes infeasible is a tricky balance, especially over time as rents and construction costs change. Below are several approaches to generating value and capturing the value for public amenities.

Local Density Bonus: Providing additional floor area ratio (FAR), unit density, and/or height can allow a multifamily housing development to provide more housing.

The City has implemented a local density bonus program called the Housing Incentive Program (HIP). For 100% affordable projects, it also provides flexibility in development and parking standards. Since the HIP allows more density than is permitted under State Density Bonus Law, it provides a real incentive for applicants. The HIP allows for public and decision-maker input through architectural review.

Building on this program, staff propose a NVCAP-specific density program that allows additional height and unit density to 100% affordable housing projects or 100% work-force housing projects. These deed-restricted projects provide housing units to households who cannot find housing they can afford in the marketplace. Projects that are 100% affordable can leverage the up-zoning for public subsidies, grants, and other financial support.

Fees and Exactions: The City can set fees and exactions to ensure the plan's goals for community amenities are funded and implemented as projects are developed. Exactions may include on-site affordable housing requirements (beyond the existing 15% Inclusionary Housing Ordinance) or creek restoration and park dedication requirements. Alternatively, or in addition, the City may assess fees for parks and open space, affordable housing, pedestrian and bicycle improvements, and/or other infrastructure. The City would then collect fees into a fund to be implemented through City-initiated projects, as stipulated by the coordinated area plan.

Menu of Options: The City could list amenities as a menu of options for developers to choose from. This could provide some flexibility for the applicant, while ensuring that the community and City obtain their desired benefits.

Assessment Districts: Property owners may choose to apply a tax assessment on their properties to pool funds toward specific goals and projects, over and above the City's services. Assessment districts can be set up for a variety of purposes, from retail amenities to lighting and parks/landscape maintenance. Services are governed and administered by the property owners, typically as part of a nonprofit association. These districts ensure that funds raised within a specific area are spent within that area. A Green Benefit District (GBD) provides additional maintenance and capital improvements such as parks, open spaces, landscaping, and streetscape beatification, within a designated area.

Residential projects that seek approval under streamlined review processes may only be subject to objective standards. As a result, whichever method or methods that the City pursues, requirements must be clear and objective. Exceptions to this would be in the form of development agreements, negotiated agreements typically on large properties with more complex entitlements.

3. Anti-Displacement Measures

The trend in Palo Alto, as is the case in most inner bay area cities, is that housing is becoming less available and therefore more expensive because the regional supply has remained relatively static as compared to the high level of regional job growth and increase in high income earners. Without the production of more market-rate and affordable housing units, residents of Palo Alto will be met with further increased housing costs and decreasing availability. As Strategic Economics' reported in January 2020, estimated residential rents in the neighborhood for new construction range from $3,850 to $4,675. A household would need to earn a minimum $154,000 to $187,000, respectively, to afford these rates, based on the 30% rent burden threshold.

Most redevelopment anticipated will come at the loss of one-story commercial buildings and renter-occupied single-family housing. El Camino Real and Lambert Avenue, in particular, provide relatively low rent spaces for important neighborhood retail and auto service uses. Some of these uses may be able to relocate elsewhere on El Camino Real, where we can expect vacancies to persist due to the COVID-19 pandemic and its effects on local businesses.

Displacement Policies & Displacement Prevention & Mitigation Strategies

The City of Palo has a Rental Housing Stabilization Ordinance that describes lease terms and tenant-landlord relations. It does not include rent control provisions nor stipulate relocation requirements following demolition of the unit.

Senate Bill 330, effective January 2020 through January 2025, includes stipulations for residential tenants that are displaced as a result of a housing development project:

- No Net Loss: A housing development that would demolish any existing unit may only be approved if replacement affordable units are provided.
- Relocation and Right to Return: Occupants of units slated for demolition shall be granted (1) right to remain in the unit until 6 months before the start of construction; (2) relocation assistance; and (3) a right of first refusal to return once the new unit is constructed.
- Replacement of "Protected" Units: Certain affordability conditions must be applied to housing development projects that would demolish any existing "protected" units occupied by renter households, defined as:
    - affordable units deed-restricted to households earning below 80 percent of AMI,
    - subject to a local rent control program;
    - occupied by low-income households earning below 80 percent of AMI.

In other words, a developer would need to determine the household income of occupants of the units proposed for demolition and offer a replacement unit with the same number of bedrooms and at a rent affordable at the same or lower income category.

Further, the City may consider the following strategies to further prevent or mitigate residential displacement:

- Ensure that right to return provisions extended beyond January 2025, if SB330 is not reauthorized
- Work with brokers and property owners of Housing Element sites to consider housing development projects
- Use affordable housing funds to acquire Housing Element or other opportunity sites in coordination with an affordable housing developer in order to develop subsidized housing
- Support alternative models of housing development, such as co-living and cooperative housing, that may have fewer in-unit amenities, but provide for affordable housing by design.

The City may consider the following strategies to further prevent or mitigate commercial displacement:

- Identify vacant commercial tenant spaces on El Camino Real and other nearby commercial locations
- Work with commercial brokers and property owners to make a good faith effort to relocate commercial tenants, as a condition of project approval

4. Parking Management

As part of the NVCAP project, ARUP completed a parking occupancy study in Fall 2018 (i.e., pre-COVID) that identified a surplus of parking capacity within the planning area.[1] On-street parking peaked midday at 63% occupancy, while off-street parking peaked in the afternoons at 43% capacity. ARUP notes that a well-run parking program generally strives for approximately 85% occupancy, ensuring that parking is available, but not underutilized.

As the population of workers and residents change as a result of the NVCAP, the City will need to consider strategies to manage parking across the planning area and on individual sites.

Possible strategies that are currently in use in Palo Alto or could be applied in the NVCAP area are explored below:

Unbundling. Some cities encourage or require rental housing to "unbundle" parking for housing, meaning that parking spaces are leased separately from units. This tool is often used as a way to discourage car ownership or attract tenants that do not own cars. A concern raised by the community with this approach is about potential spillover parking onto the street, since

[1] Parking Occupancy Study:
https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?BlobID=73918&t=52731.83

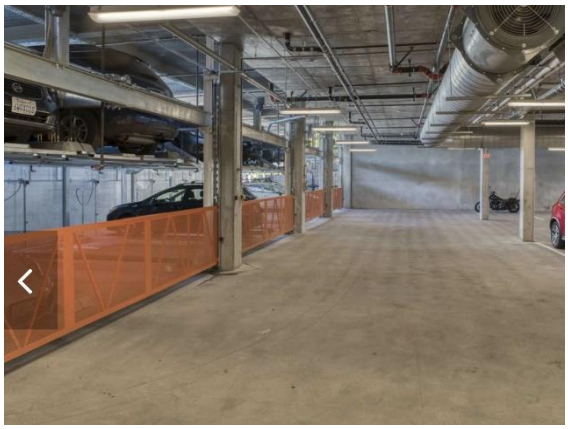
tenants may be motivated to parking on the street rather than within the housing complex in order to save on parking fees.

Shared Parking. The Zoning Ordinance allows for shared parking on sites with multiple uses and offers an up to 20% reduction in required parking. This intent is to capture parking efficiencies for different uses depending on the time of day. For example, residential uses tend to have maximum demand in the evenings and overnight, while office commercial uses have maximum demand during the work-day. Shared parking reductions are a discretionary request that may require additional transportation demand management (TDM) measures.

Parking Assessment Districts. Parking assessment districts allow property owners within a specific area to assess their properties for the purpose of building or maintaining parking facilities. Current parking district regulations create some bias toward development of non-residential uses over residential uses. For example, non-residential uses have the option of paying into the Downtown Parking Assessment District in-lieu of providing parking on site. Given the high cost of land and the value of office lease rates, developers often choose to pay into the District and maximize their leasable area. Residential uses do not have this option. Moreover, the current downtown rate, at $106,171/space, may be too high for a residential developer in the NVCAP to bear.

Retail Parking Incentives. It can be challenging for developers to accommodate retail parking requirements within a mixed-use building. Physically, there is competition at the ground-floor for lobby space, parking, mechanical, and refuse; economically, retail parking does not pay for itself given low retail rents. In 2019, the City Council acknowledged this challenge and revised the Zoning Ordinance on CN and CS zoned sites abutting El Camino Real to exempt the first 1,500 square feet of ground-floor retail uses (within a residential mixed-use project) from the vehicle parking requirement. If desired, the City could provide a similar incentive in the NVCAP area.

Underground vs. Podium Configurations. Several recent development applications and completed projects have included underground parking in their projects. In part, developers are choosing underground parking, so that they can build leasable space in the 3 or 4 stories of developable area permitted above ground. However, if the NVCAP allows increases in the height limit, developers may choose to locate parking above-ground, in a podium format, as a way to reduce construction costs. Podium construction can provide opportunities for ground-floor retail and courtyard open spaces. But, the City may also want to provide specific standards for the appearance of the garage from the sidewalk, the types of active ground-floor uses.



Pictured above, the Maya apartments in Oakland, CA include a podium on the first level, with parking in mechanical lifts. Retail and restaurant uses wrap the parking area and provide active uses at the sidewalk.

Mechanical Lifts. Mechanical lifts may be used by developers to meet parking requirements on smaller sites proposing higher density projects. Lifts allow for a doubling (or more) of parking spaces but do require some additional ground-floor height. Lifts are generally acceptable for meeting residential parking requirements, but are not appropriate for ADA spaces, visitors, customers, and other short-term users. Currently, the City allows mechanical lifts.

5. Placemaking

A sense of place can be instilled by landmarks, signage, iconic buildings or signature trees, important gathering places, and uses. It is also reinforced by a consistent street wall and the relationship between the public realm and the private building. The more that driveways and parking lots can be located on side or rear streets, the more that the mass of the building or fronting plazas can reinforce the pedestrian experience.

Given the historic events and persons associated with 340 Portage, public spaces located on or near the parcel many incorporate cannery-related themes and other placemaking elements that pay homage to Thomas Foon Chew. He was one of the largest cannery owners in the United States and one of the most successful Chinese businesspeople of his era. Incorporating the history into the site can and should extend beyond plaques; this history should be a theme that ties public and private spaces together.

Nodes and Entries. How do you know when you have arrived in the NVCAP area? Right now, it is difficult to know that you have arrived in the plan area, because there is a weak sense of place. The most concentrated and dense projects may ultimately define the “center” of North Ventura and provide a sense of place. Understanding the center and designing the uses and interface between the public and private realm will be essential for placemaking.

Building Design. Variation is also needed to differentiate the sense of place. This variation can be included in the design of the building with features such as memorable colors, shapes, or materials; a cluster of taller landmark buildings; or an addition of a landmark to the streetscape. The plan will need to balance the need for objective design standards with a placemaking desire for variety, creativity, and visual interest.

Active Ground Floor Uses. To fulfill the project goals toward pedestrian- and bicycle-orientation, the experience from the ground-floor needs to be human-scaled and prioritize these modes. For example, parking areas and driveways should be accessed off of side streets, whenever possible. At present, the Retail Preservation Ordinance will require ground-floor uses on El Camino Real and Lambert Avenue to remain as retail or retail like. However, in other parts of the planning area, projects may be 100% residential or 100% office uses. Balancing tenant privacy and desire for visual interest from the sidewalk will be important parts of the implementing zoning standards.

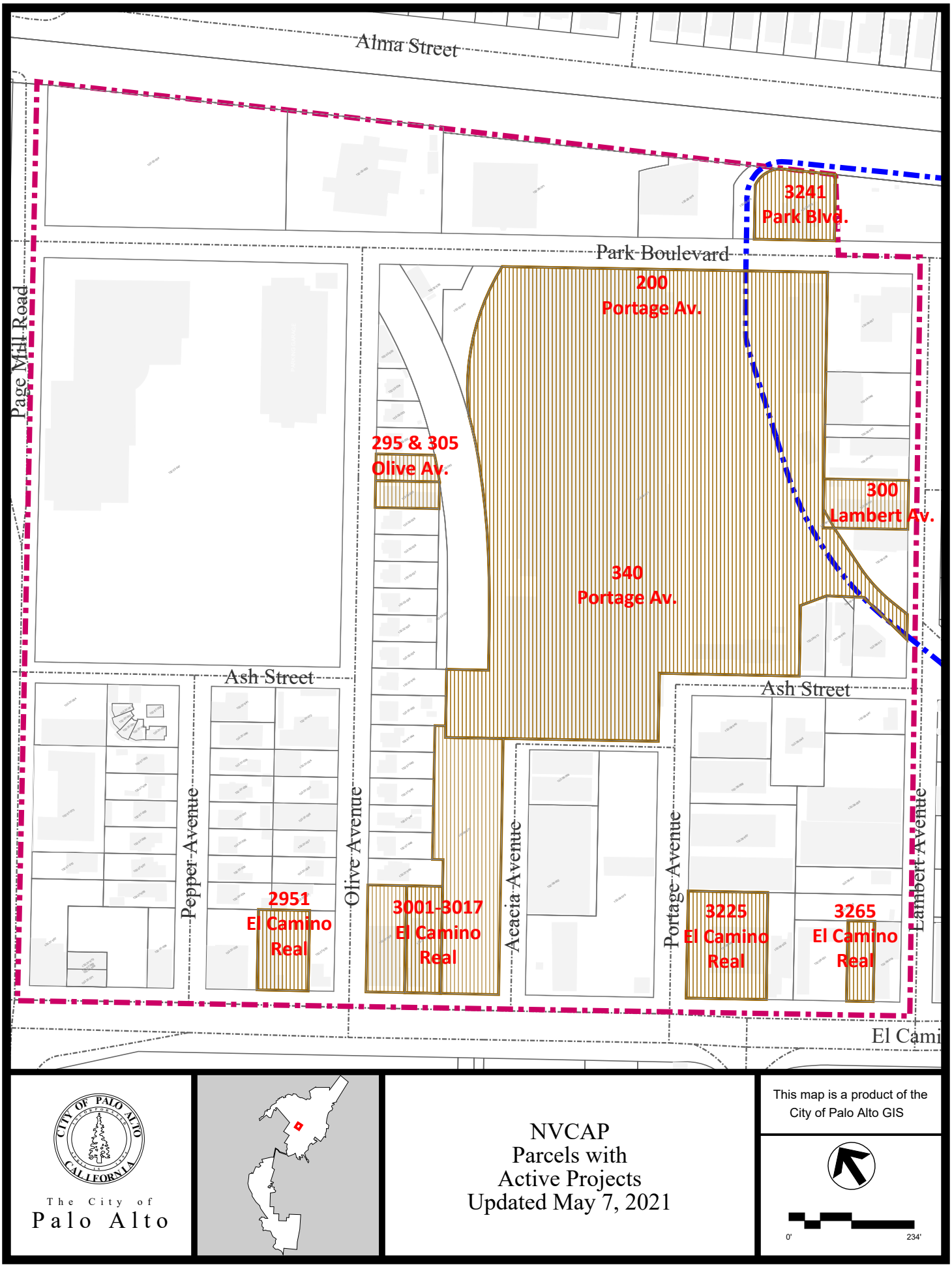
Public Spaces and Matadero Creek. Parks, plazas, and other open space will contribute to the identity of the neighborhood. Connecting open spaces from Boulware Park, the future park at 330 Birch St., and potentially the creek could be a signature feature of the neighborhood and make it a unique place for neighbors, workers, and residents citywide. Transportation improvements, such as crosswalks, traffic calming, bicycle facilities and parking will need to be coordinated to ensure safety and convenient access. Integrating public plazas and small and large open spaces as part of redevelopment projects would provide opportunities for public gathering and reinforce the pedestrian experience.[2]

Tree Replacement. Palo Alto's trees are one of the highlights of the City's public realm and identity. As part of the design review process, tree preservation and replacement are determined on a project by project basis and may be a source of community concern. The planning area includes many mature trees: on the street, on private property, and in the two large surface parking lots at 395 Page Mill Rd. and 340 Portage Ave. Having a clear policy for retention and replacement of trees will help protect important trees, maintain the City's tree canopy and identity, set expectations for future projects, and streamline project review.

[2] The City's consultant, WRA, has completed a study of creek improvements concepts and cost estimates:
https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?BlobID=79219&t=68527.88

List of Projects in the NVCAP Area						
	PROJECT TYPE	**PROJECT ADDRESS**	**NET GAIN OFFICE/R&D and RETAIL**	**NET GAIN DWELLING UNIT**	**YEAR**	**PROJECT DESCRIPTION / STATUS UPDATE (5/4/2021)**
Council Pre-Screening/No Formal Application Submitted						
1	Residential Development	300 Lambert Avenue		49	2021 (No Formal Application Submitted)	Request for pre-Screening application submitted on 5/6/21 for New multi-family residential condominium project with 49 condo units and a below-grade parking garage. The project is pursuing approval for the use of PHZ zoning regulations under the Palo Alto Municipal Code.
2	Mixed Use Project	2951 El Camino Real	6,000	113	2020 (No Formal Application Submitted)	Two prescreening applications (one original and second one revision of the original) for Mixed Use project (PHZ) with 113 new residential units submitted on 11/3/2020. No formal application submitted as of 5/4/2021.
Entitlement Submitted and Under Review						
3	Residential Development	200 Portage Avenue	0	91	2021 (Project Submitted)	Subdivision application for tentative map filed on 4/7/2021 and major ARB review submitted for demo of commercial space and construction of 91 new homes on 3/31/2021. Project under review, a notice of Incomplete sent on 4/30/2021 for the ARB review application.
4	Research and Development (R&D) Building	3241 Park Blvd.	3,358	0	2020 (Project Submitted)	Major ARB for R&D building submitted on 2/11/2020. Project plans resubmitted and second ARB hearing to be scheduled in June /July 2021.
5	Zoning Text Amendment	340 Portage Avenue	0	0	2020 (Project Submitted)	Zoning text amendment submitted on 7/17/2020. Review dependent on City Council's decision of interpreting nonconforming use ratio at the site on 6/14/2021
Planning Entitlement Issued (Not Under Construction)						
6	Single Family Homes	295 and 305 Olive Avenue	0	2 SFH with 2 ADUs and 2 JADUs	2020 (Project Submitted)	Two separate IR applications for SFH, ADU and JADU approved and project ready to file for Building Permit
7	Mixed Use Project	3265 El Camino Real	275	3	2018 (Project Entitled)	Project entitled, but construction has not started yet.

	PROJECT TYPE	PROJECT ADDRESS	NET GAIN OFFICE/R&D and RETAIL	NET GAIN DWELLING UNIT	YEAR	PROJECT DESCRIPTION / STATUS UPDATE (5/4/2021)
8	Mixed Use Project	3001 El Camino Real (Mikes Bike Site)	19,800	44	2018 (Project Entitled)	Project entitlement extended by City Council. It will remain valid six months after shelter-in-place ends.
Project Under Construction						
9	Mixed Use Project	3225 El Camino Real (Foot Locker Site)	4984	8	2018 (Project Entitled)	Project under construction
Data Sources: City of Palo Alto's Accela Data and Building Eye Data. Updated on 5/4/2021						



The City of Palo Alto

NVCAP
Parcels with
Active Projects
Updated May 7, 2021

This map is a product of the City of Palo Alto GIS

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NVCAP Parcel Ownership& Potential Sites5 7 21 (\\cc-maps\Encompass\Admin\Personal\Planning.mdb)

Attachment G: Opportunity Site Analysis and Development Potential Methodology

To estimate the development potential in Tables 2 and 3 in the staff report, City staff and consultants developed a methodology for potential buildout on "opportunity sites" in the planning area. The project team sorted the sites into tiers based on the following characteristics of each parcel:

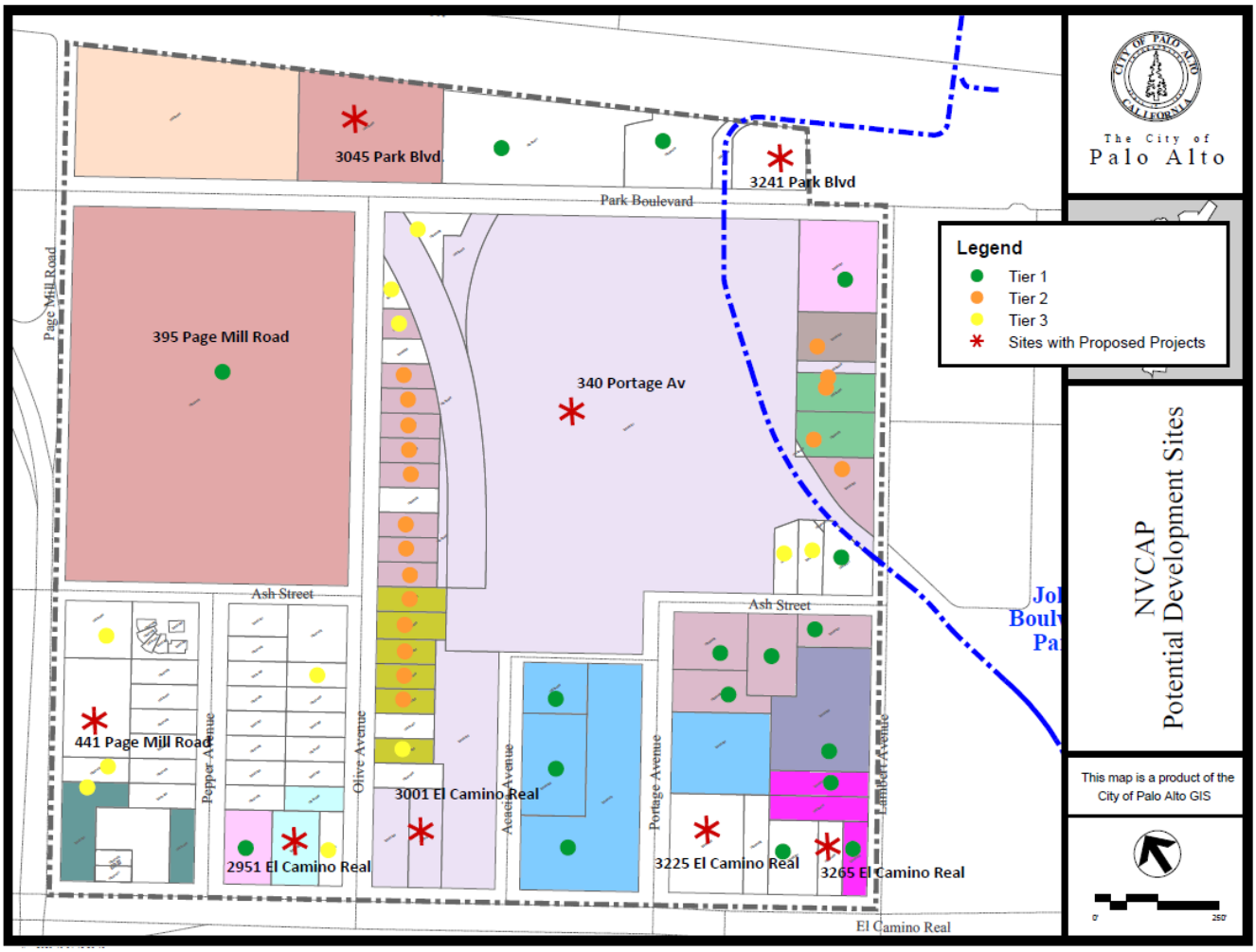
- Tier 1 (most potential): Owner has expressed interest in redevelopment; or parcel is greater than 10,000 sf, and/or contiguous parcels under single ownership exceed 10,000 sf. Shown as redeveloped in Alternatives 1, 2, and 3B.

- Tier 2 (moderate potential): Parcels less than 10,000 sf, which require multiple tenant relocations, but contiguous sites under single ownership allows for consolidation and redevelopment on a lot that is greater than 10,000 sf. Shown as redeveloped in Alternatives 2 and 3B.

- Tier 3 (least potential): Parcels less than 10,000 sf, parcels which require site acquisition, lot consolidation and/or multiple tenant relocations to achieve a lot that is greater than 10,000 sf. Shown as Alternative 3B only.

The opportunity sites do not include parcels that have owner-occupied single-family homes; Santa Clara Valley Water District properties; commercial condos; and parcels that have redeveloped since 2010.

The resulting potential development sites, by tier, are illustrated in the map on the following page.


3045 Park Blvd
3241 Park Blvd
Park Boulevard
Page Mill Road
395 Page Mill Road
340 Portage Av
Ash Street
Ash Street
441 Page Mill Road
Pepper Avenue
Olive Avenue
3001 El Camino Real
Acacia Avenue
Portage Avenue
Limited Avenue
2951 El Camino Real
3225 El Camino Real
3265 El Camino Real
El Camino Real
Legend
Tier 1
Tier 2
Tier 3
Sites with Proposed Projects
The City of Palo Alto
NVCAP
Potential Development Sites
This map is a product of the City of Palo Alto GIS
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STRATEGICECONOMICS

DRAFT MEMORANDUM

To: Clare Campbell, City of Palo Alto

From: Sujata Srivastava, Strategic Economics

Date: November 17, 2020

Subject: Financial Feasibility of NVCAP Alternatives

Introduction

This memo summarizes the key financial feasibility findings as they relate to the preliminary land use alternatives for the North Ventura Coordinated Area Plan. The conclusions presented in this report are based on a financial feasibility analysis that was completed in January 2020. Since the onset of the COVID-19 pandemic, rental apartment vacancy rates have increased and rents have declined, but the need for housing is likely to continue growing. Reducing the cost of construction for residential development continues to be important for improving the feasibility of new construction; the overall conclusions from early in 2020 are unchanged. Alternative 3 allows for more efficient housing types and a greater mix of land uses, and is therefore the most viable alternative of the three proposed alternatives, and the most likely to deliver community benefits.

Approach to the Analysis

Strategic Economics worked closely with the Consultant Team to develop the approach and methodology for the financial feasibility analysis. The following summarizes the steps undertaken in the analysis and the key data sources.

Step 1. Develop Residential Prototypes

The initial step of the analysis was to create a series of residential prototypes. These are intended to represent ownership and rental development that is likely to occur in the City of Palo Alto in the next three to five years. Strategic Economics worked with the Consultant Team to develop assumptions about the building types, parcel size, density, ground-floor retail, and other factors. The prototypes include townhouses with above-ground podium parking, multifamily condos (medium and higher density), multifamily rental apartments (medium and higher density), and mixed-use multifamily rental apartments with ground-floor retail.

Step 2. Collect Key Inputs and Build Pro Forma

The financial feasibility of each prototype is measured using a static pro forma model that calculates profitability. The key inputs in the financial feasibility analysis are the revenues (rents/ sales prices), development costs, and land costs. Strategic Economics collected and summarized data on these inputs using the following data sources:

- **Costar**, a commercial real estate database that tracks rental multifamily properties and property transactions.
- **Interviews** with local developers and brokers.
- **Redfin** and **Polaris Pacific**, real estate firms that collect data on residential sales prices.
- **Review of pro formas** from other projects and clients.

Step 3. Calculate Financial Feasibility

Once all the assumptions and inputs are added, the pro forma model sums up all development costs, including land costs, hard costs (construction costs), soft costs, and financing costs. The pro forma also adds up the project's total value. The project's total value is the sum of the estimated value of the units (i.e. the average per unit sale price for ownership units or the capitalized value of rental units multiplied by the number of units in the project).

The project's profitability, or rate of return, is then calculated by dividing the project's net revenue (i.e. total value minus total development costs), by total development costs. To understand the feasibility of development, the results are compared to developers' typical expectation of return. If the developer's return for a project is within the range of the expected return, the development project is highly likely to be developed. If the return is lower than the market expectation, it is less likely to be built.

Financial Feasibility of Alternatives

ALTERNATIVE 1

- Townhouse development (up to 30 feet) is the most likely development type to move forward in this alternative, because it can accommodate the required parking in an above-ground parking podium. Townhouse construction is less expensive than multifamily housing, which would need to accommodate the parking underground. Assuming that townhomes are more likely to be for-sale products, they can be expected to contribute approximately 15 percent of units for below-market-rate (BMR) housing, per the City's existing policy.

- Three-story (35 feet) and four-story (50 feet) multifamily condos and apartments are unlikely to be developed in this alternative due to the cost of underground parking to accommodate the parking requirement of one space per bedroom, relative to the number of units that can be achieved on the sites under the proposed height limits.

- Feasibility is more challenging for mixed-use multifamily housing because of the increased cost of building the retail space and providing the required parking, which is not usually offset by the modest retail rents that can be achieved from ground-floor retail spaces.

- Residential developers are less likely to dedicate parkland rather than paying park fees. This is because the maximum density enabled in this alternative is low, and they would need to maximize the development potential on their sites in order to make projects more financially feasible to develop. The existing park fees are more likely to encourage compact multifamily development.

- The lack of new office development in Alternative 1 – combined with the challenging feasibility of multifamily residential development – limits the potential for additional community benefits contributions in the NVCAP area.

FIGURE 1: ALTERNATIVE 1 SUMMARY OF FEASIBILITY OF RESIDENTIAL DEVELOPMENT

Prototype	Townhome (Ownership) 30 feet	Multifamily Condos 35 feet	Multifamily Rental 35 feet	Multifamily Condos 50-70 feet	Multifamily Rental 50-70 feet	Mixed-Use Multifamily Rental 50-70 feet
Description	2-story townhomes with podium parking	3-story condos with underground parking	3-story apartments with underground parking	4 to 6-story condos with underground parking	4 to 6-story apartments with underground parking	4 to 6-story apartments with ground-floor retail and underground parking
Total Units	**18**	**56**	**78**	**119**	**170**	**192**
Number of Market Rate Units	15	48	78	101	170	192
Number of BMR Units Required	3	8	0	18	0	0
Average Unit Size (in square feet)	1,600	1,000	780	1,000	700	700
Number of Parking Spaces	36	112	117	238	255	308
Parking Ratio	2.0	2.0	1.5	2.0	1.5	1.6
Market Rate Sales Price / Monthly Rent	$1,440K	$1,150K	$4,290	$1,150K	$3,850	$3,850
Development Cost per Unit	$1,054K	$947K	$707K	$942K	$660K	$658K
Feasibility/ Likelihood of Development	**Somewhat likely**	**Unlikely**	**Unlikely**	**Unlikely**	**Unlikely**	**Unlikely**
Potential Community Benefits Contributions	**Modest**	**None**	**None**	**None**	**None**	**None**

Source: Strategic Economics, January 2020.

ALTERNATIVE 2

- The results of Alternative 2 are similar to Alternative 1 because there are few differences in the types of residential development envisioned. The slightly higher parking requirement of 1.5 spaces per bedroom would be equivalent to at least 2 spaces per unit for the larger ownership prototypes (townhouses and condominiums), and approximately 1.5 spaces per unit for rental apartments, which are likely to be studios and one-bedrooms.

- There is no financial incentive for private developer to demolish the existing office space in the 340 Portage building and convert to multifamily residential, especially if there is also a significant parkland dedication. Currently, the estimated value of the existing office space is approximately $1,400 per square foot (assuming that rents are about $7 per square foot on a triple net basis). The estimated value of a new market-rate rental apartment building would be lower at $1,125 per square foot. A new office development project would be more lucrative than a new rental residential project, generating nearly double the net value per square foot, as shown in the table below.

FIGURE 2: COMPARISON OF NET VALUE OF RENTAL HOUSING AND OFFICE DEVELOPMENT PROJECTS

Land Use/ Building Type	35 foot rental apartment with underground parking	2-story office building with structured parking
Development Cost (per net sq. ft.)	$906	$988
Market Value (per net sq. ft.)	$1,125	$1,387
Net Value per sq. ft.	$218	$399

Source: Strategic Economics, 2020.

- It is not likely that small professional office would support the provision of additional community benefits – small companies and nonprofits are not typically able to afford the rents that are required to support new development.

- Overall, Alternative 2 provides very limited potential for community benefits contributions due to the challenging economics for multifamily housing with higher parking requirements, and the marginal feasibility of small professional office space.

FIGURE 3: ALTERNATIVE 2 SUMMARY OF FEASIBILITY OF RESIDENTIAL DEVELOPMENT

Prototype	Townhome (Ownership) 30 feet	Multifamily Condos 35 feet	Multifamily Rental 35 feet	Multifamily Condos 50-70 feet	Multifamily Rental 50-70 feet	Mixed-Use Multifamily Rental 50-70 feet
Description	2-story townhomes with podium parking	3-story condos with underground parking	3-story apartments with underground parking	4 to 6-story condos with underground parking	4 to 6-story apartments with underground parking	4 to 6-story apartments with ground-floor retail and underground parking
Total Units	**18**	**56**	**78**	**119**	**170**	**192**
Number of Market Rate Units	15	48	78	101	170	192
Number of BMR Units Required	3	8	0	18	0	0
Average Unit Size (in square feet)	1,600	1,000	780	1,000	700	700
Number of Parking Spaces	36	112	117	238	255	308
Parking Ratio	2.0	2.0	1.5	2.0	1.5	1.6
Market Rate Sales Price / Monthly Rent	$1,440K	$1,150K	$4,290	$1,150K	$3,850	$3,850
Development Cost per Unit	$1,054K	$947K	$707K	$942K	$660K	$658K
Feasibility /Likelihood of Development	**Somewhat likely**	**Unlikely**	**Unlikely**	**Unlikely**	**Unlikely**	**Unlikely**
Potential Community Benefits Contributions	**Modest**	**None**	**None**	**None**	**None**	**None**

Source: Strategic Economics, January 2020.

ALTERNATIVE 3

- All of the residential prototypes are likely to be financially feasible in this scenario because of the lower parking requirement of one space per unit. The lower ratio is particularly helpful for ownership products, which are more likely to be two-bedroom or three-bedroom units. At this parking ratio with the building heights proposed, the parking could potentially be accommodated on an above-ground podium rather than underground, which would considerably lower construction costs and improve feasibility.

- Ownership products (townhouses and condos) could feasibly contribute 15 percent of units at restricted prices for moderate-income households, conforming to the existing policy.

- Rental development are more likely to be able to contribute in-lieu fees (current policy) rather than providing units on-site, consistent with the existing policy.

- Because the lower parking requirement allows for a more efficient use of space, it is more likely that residential developments in Alternative 3 could contribute a small percentage of land for open space/parks.

- Permitting new office development on key opportunity sites, without restrictions on the size or type of office, provides a stronger economic incentive for redevelopment of those properties. As shown in Figure 2 above, office development generates a higher net value than residential uses. For this reason, allowing more office also increases the potential for the provision of community benefits on the sites and in the overall NVCAP area. This includes parkland dedication, creek improvements, commercial linkage fee revenues or land dedication for BMR housing, nonprofit/community spaces, and public realm improvements.

FIGURE 4: ALTERNATIVE 3 SUMMARY OF FEASIBILITY OF RESIDENTIAL DEVELOPMENT

Prototype	Townhome 30 feet	Multifamily Condos 35 feet	Multifamily Rental 35 feet	Multifamily Condos 50-70 feet	Multifamily Rental 50-70 feet	Mixed-Use Multifamily Rental 50-70 feet
Description	Two-story townhomes, Smaller-Scale Project	3-story condos with underground parking	3-story apartments with underground parking	4 to 6-story condos with underground parking	4 to 6-story apartments with underground parking	4 to 6-story apartments with ground-floor retail and underground parking
Total Units	**18**	**56**	**78**	**119**	**170**	**192**
Number of Market Rate Units	15	48	66	101	144	163
Number of BMR Units Required	3	8	0	18	0	0
Average Unit Size (in square feet)	1,600	1,000	780	1,000	700	700
Number of Parking Spaces	18	56	78	119	170	206
Parking Ratio	1.0	1.0	1.0	1.0	1.0	1.1
Market Rate Sales Price / Monthly Rent	$1,440K	$1,150K	$4,290	$1,150K	$3,850	$3,850
Development Cost per Unit	$1,003K	$819K	$643K	$814K	$596K	$589K
Feasibility/ Likelihood of Development	**Highly Likely**	**Highly Likely**	**Highly Likely**	**Highly Likely**	**Highly Likely**	**Highly Likely**
Potential Community Benefits Contributions	**High**	**High**	**Moderate**	**High**	**Moderate**	**Moderate**

Source: Strategic Economics, January 2020.

EFFECTS OF COVID-19 ON HOUSING AND COMMERCIAL 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 have 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 currently. 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.

The commercial office market has also been impacted by the pandemic, as most Bay Area firms are unable to operate at full capacity at the office. Available data does not show a significant change in rental rates or vacancy rates because most firms are still on long term leases which have not yet been renegotiated or expired. Many employers are still waiting to make a decision about taking on new commitments for space. A number of large Silicon Valley corporations have announced that they will allow remote working for at least the next six months. Given the uncertainty of the course of the pandemic, real estate developers and brokers are divided on how much the pandemic will alter overall demand after conditions improve enough for Shelter-in-Place restrictions to be removed.

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 or commercial development. 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 rental housing and office 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.

STRATEGICECONOMICS

MEMORANDUM

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

From: Sujata Srivastava and Jesse Brown, Strategic Economics

Date: May 10, 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 20% 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 multifamily 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 potentially provide up to 20% BMR units if parking can be provided in an above-ground parking structure. Shifting some of the parking from an underground structure to an above ground podium significantly reduces the cost of development.

- **A 45-foot mixed-use building with three stories of residential over a podium (Option 2) is somewhat likely to provide between 15% and 20% BMR units.** This prototype can provide 15% to 20% BMR units and still achieve a yield on cost (YOC) of above 5.0 percent. However,

this rate of return may not be sufficiently high to attract developer interest or to motivate existing property owners to build multifamily rental housing.

- **The 55-foot mixed-use residential development prototype is the most likely to provide 20% BMR units.** Out of all the options tested, the 55-foot mixed-use prototype generates the highest yield on cost (return). It is the prototype that has the highest probability of providing 20% BMR units, including 5% units for very low income households. The extra height allows this development prototype to accommodate four stories of residential units above one level of parking podium, in addition to one level of underground parking. As mentioned above, shifting about half of the parking to an above-ground podium lowers development costs significantly. However, accommodating one level of parking on the ground floor (15 feet) and maintaining the same unit count would require an additional five feet of height.

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 areas with a 50-foot to 70-foot height limit, it is expected that the development would be a blend of 4-story multifamily rental apartments and 4-story condominiums of under 50 feet. The additional height of 20 feet would be applied only for projects that receive the state density bonus or a similar local density bonus program. 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 four-story buildings 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

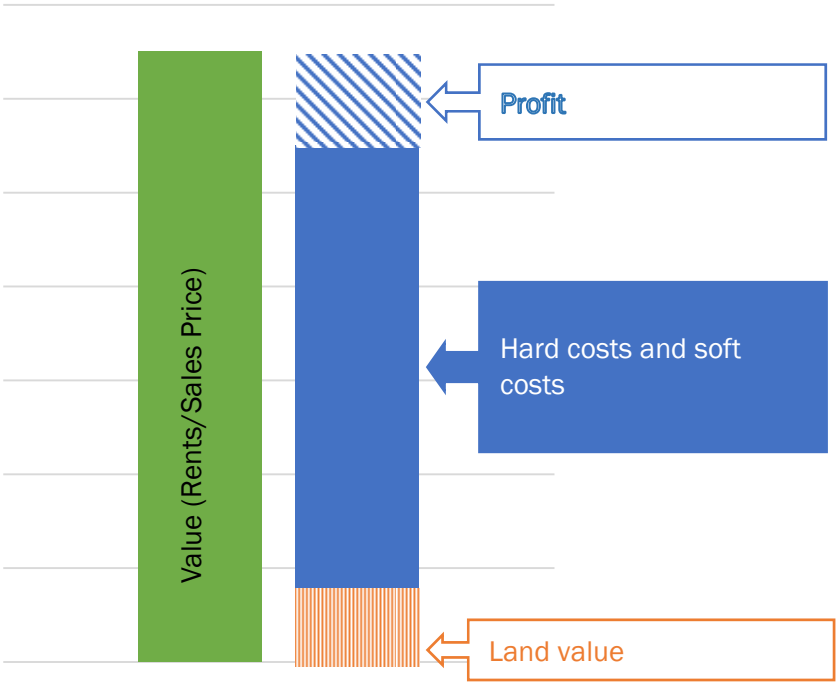
Source: City of Palo Alto; Strategic Economics.

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 estimating total development costs, Strategic Economics assumed that the minimum 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, 2021.

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

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

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.

FIGURE 3: DEVELOPMENT COST PER UNIT FOR ALTERNATIVE 2

Prototype	Townhome 35 feet	Multifamily Condos Up to 50 feet	Multifamily Rental Up to 50 feet
Description	2-story townhomes with podium parking	4-story condos with underground parking	4-story apartments with underground parking
Total Units in Prototype	18	119	170
Number of Market Rate Units	15	101	144
Number of BMR Units Required (15%)	3	18	26
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 including Profit	$1,212K	$1,083K	$742K

Source: Strategic Economics.

FIGURE 4: DEVELOPMENT COST PER UNIT FOR ALTERNATIVE 3

Prototype	Townhome 35 feet	Multifamily Condos Up to 50 feet	Multifamily Rental Up to 50 feet
Description	2-story townhomes with podium parking	4-story condos with underground parking	4-story apartments with underground parking
Total Units in Prototype	18	119	170
Number of Market Rate Units	14 to 15	95 to 101	136 to 144
Number of BMR Units Required (15-20%)	3 to 4	18 to 24	26 to 34
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 including Profit	$1,153K	$936K	$668K

Source: Strategic Economics.

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 15% and 20% BMR housing units.

- For ownership housing, Strategic Economics analyzed the potential for developments to provide 15% BMR units in Scenario 1, which is the current citywide requirement. In Scenario 2, 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	n/a
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 35 feet	Multifamily Condos Up to 50 feet	Multifamily Rental Up to 50 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 35 feet	Multifamily Condos Up to 50 feet	Multifamily Rental Up to 50 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

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 up to 50 feet	Multifamily Rental up to 50 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.

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. In Alternative 3, ownership products can potentially provide at least 20% BMR units onsite, targeting a mix of moderate and low income households (Scenario 2).

A 4-story rental development project as described above can feasibly provide up to 15% BMR units targeted to a mix of moderate and low income households. A four-story, multifamily rental project as described in Figure 4 has a development cost of $668,000 per unit. In Scenario 1, which would provide 15% of the units to very low income, low income, and moderate income households, the development cost per unit of $668,000 exceeds the average value per unit of $659,000. In Scenario 2, which would provide 15% BMR units to moderate and low income households, 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" but not generate significant profit. Scenario 3, which would provide 20% BMR units to very low, low, and moderate income households is also infeasible because the cost exceeds the value ($648,000).

FIGURE 9: PER UNIT DEVELOPMENT COSTS, BY BMR LEVEL

	Townhome 35 feet	Multifamily Condos up to 50 feet	Multifamily Rental up to 50 feet
Development Cost per Unit Including Profit	$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.

OPTIONS FOR ALTERNATIVE 3 TO PROVIDE 20% BMR UNITS IN RENTAL PROJECTS

Strategic Economics did additional feasibility analysis on rental prototypes in Alternative 3 to determine the types of rental development projects that could provide up to 20% BMR units in rental projects, including units for very low income households. Figure 11 summarizes the rental prototype options studied.

- Option 1: The original prototype tested in Alternative 3 and described in Figure 4 is a 40 to 45-foot, four-story rental apartment building. There is no ground-floor retail, and all of the parking is provided in an underground structure.

- Option 2: This 50-foot, four-story mixed-use prototype includes 6,400 square feet of ground floor retail and 3 stories of residential units. Rather than accommodating all the parking in an underground structure, this prototype provides half of the parking in an above-ground podium. The first 3,000 square feet of retail is exempted from parking requirements, and the remaining 3,400 square feet has a parking ratio of four spaces per 1,000 square feet.

- Option 3: This 55-foot mixed-use prototype includes 6,400 square feet of ground-floor retail and four stories of residential units. Like Option 2, this prototype provides a mix of podium and underground parking. Like Option 2, the first 3,000 square feet of retail is exempted from parking requirements, and the remaining 3,400 square feet has a parking ratio of four spaces per 1,000 square feet.

For each prototype, Strategic Economics conducted additional pro forma analysis to estimate the probability of development. In this more detailed analysis, the feasibility is defined by the rate of return for the developer, measured as yield on cost. Yield on cost (YOC) is calculated as the net operating income divided by total development costs. YOC is a commonly used metric for assessing the feasibility of rental development projects. For the purposes of this analysis, rental projects that meet or exceed a yield on cost of over 5.25 percent are highly likely to be developed.[2] Projects that achieve a return of between 5.0 and 5.25 percent are somewhat likely to be built. Projects with a return of under 5.0 percent may roughly "break even" but are not likely to be developed. Finally, projects that have negative net revenues (costs exceed values) are infeasible.

The pro formas for the development options and BMR scenarios are shown in the Appendix of the memo report.

The following summarizes the findings of the analysis of the rental prototypes in Alternative 3.

Option 1, a residential-only development of 40 to 45 feet, which provides all of its parking underground, is not likely to provide more than 15% BMR units. As shown in Figures 11 and 12, the per-unit development cost for Option 1, excluding profit, is $581,000. None of the potential

[2] Developers generally require that projects generate a yield on cost of at least one percentage point above the published capitalization rate for multifamily development. At the end of 2019, the cap rate for multifamily properties in the San José Metropolitan Area was between 4.00 to 4.25% (CBRE Investor's Cap Rate Survey H2, 2019.

scenarios for providing BMR units has a YOC of more than 5.0 percent, and none of them could be reasonably expected to provide a significant number of very low income units.

Development costs per unit are much lower for Options 2 and 3 because half of the parking is provided in an above-ground podium. Shifting some of the parking from an underground structure to an above ground podium significantly reduces the cost of development. Option 2 has a per-unit development cost of $547,000, excluding profit. Option 3 has the lowest per-unit development cost at $527,000 (excluding profit). Costs could be further reduced if the parking podium was built to accommodate mechanical stackers, which can accommodate a greater number of cars for a lower average cost per space.

A multifamily development project with a podium parking structure and ground-floor commercial retail is financially feasible to build. The ground-floor retail component of the mixed-use prototypes (option 2 and option 3) totals 6,400 square feet. Under the policy proposed for Alternative 3, the first 3,000 square feet of retail is exempted from parking requirements, and the remaining 3,400 square feet has a parking ratio of four spaces per 1,000 square feet. The cost of the required parking (14 spaces in a parking podium) can be accommodated by prototype options 2 and 3. However, if the amount of ground-floor retail was significantly higher, or if the parking requirement were increased, the economics of mixed-use development would be more challenging.

Option 2, a mixed-use building with three stories of residential over a podium (45 feet), is somewhat likely to provide between 15% and 20% BMR units. As shown in Figure 12, all of the BMR scenarios generate a YOC of over 5.0 percent. However, this rate of return may not be sufficiently high to attract interest from market-rate or to motivate existing private property owners to build multifamily rental housing.

Option 3, a mixed-use building with four stories of residential over a podium (55 feet), is the most likely to provide 20% BMR units, including units for very low income households. Figure 12 shows that this mixed-use prototype generates the highest YOC for all of the BMR scenarios. It is the prototype that has the highest probability of providing 20% BMR units, including 5% of the units for very low income households.

Option 3 is the likeliest to be built because it achieves the lowest development cost per unit by substituting a level of underground parking with podium parking and by retaining residential units through shifting the building up one story. As mentioned above, the development costs could be further reduced with the use of mechanical stackers in the parking podium, especially if this eliminated the need for an underground parking level.However, this would require a building height of up to 55 feet in order to accommodate a 15-foot podium and four stories of residential at an average height of 10 feet.

FIGURE 10: ALTERNATIVE 3 RENTAL PROTOTYPE OPTIONS

Prototype	Option 1 Residential Only	Option 2 Mixed-use	Option 3 Mixed-use
	40-45 feet	45 feet	up to 55 feet
Description	4 story apartments, no retail	4-story apartments with ground floor retail	5-story apartments with ground floor retail
Total Units in Prototype	170	160	192
Number of Market Rate Units	136 to 144	128 to 136	153 to 163
Number of BMR Units Required (15-20%)	26 to 34	24 to 32	29 to 39
Average Residential Unit Size (in square feet)	700	700	700
Ground Floor Retail Space (in square feet)	0	6,400	6,400
Number of Parking Spaces	170	174	206
Residential Parking	170	160	192
Commercial Retail Parking	0	14	14
Parking Ratio (spaces/unit)	1.0	1.1	1.1
Development Cost per Unit (excluding profit) (a)	$581K	$547K	$527K

(a) Includes land costs, hard costs, soft costs, and financing costs. Profit is not included.
Source: Strategic Economics.

FIGURE 11: DEVELOPMENT LIKELIHOOD FOR ALTERNATIVE 3 RENTAL PROTOTYPE OPTIONS

Prototype	Residential Only	Mixed-use	Mixed-use
	40-45 feet	45 feet	55 feet
Yield on Cost per Unit			
Scenario 1 (15% BMR targeting VLI, LI, Mod)	4.82%	5.11%	5.31%
Scenario 2 (15% BMR targeting LI and Mod)	4.89%	5.19%	5.39%
Scenario 3 (20% BMR targeting VLI, LI, and Mod)	4.74%	5.03%	5.22%

Highly Likely – YOC is 5.25% or higher
Somewhat Likely – YOC is over 5.0%
Not Likely – Net revenues are positive but YOC is below 5.0%
Infeasible – Net revenues are negative

Note: Yield on cost (YOC) is measured as the net operating income divided by total development costs.
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.

APPENDIX

FIGURE 12: ALTERNATIVE 3 RENTAL PROTOTYPE OPTION 1: RESIDENTIAL ONLY, 40-45 FEET

Prototype	Scenario 1 (15% BMR targeting VLI, LI, Mod)	Scenario 2 (15% BMR targeting LI and Mod)	Scenario 3 (20% BMR targeting VLI, LI, and Mod)
Revenues			
Net Operating Income	$4,759,498	$4,827,386	$4,679,441
Residential Net Operating Income	$4,759,498	$4,827,386	$4,679,441
Total Capitalized Value	$111,988,200	$113,585,550	$110,104,500
per unit	$658,754	$668,150	$647,674
Development Costs			
Land Costs			
Land cost per sf	$275	$275	$275
per unit	$88,733	$88,733	$88,733
Hard Costs			
Site Prep	$1,371,333	$1,371,333	$1,371,333
Residential Building Area	$42,393,750	$42,393,750	$42,393,750
Retail Building Area (Including TIs)	$0	$0	$0
Parking	$17,000,000	$17,000,000	$17,000,000
Subtotal Hard Costs	$60,765,083	$60,765,083	$60,765,083
per unit	$357,442	$357,442	$357,442
per gross residential sf	$409	$409	$409
Soft Costs			
City Permits and Fees	$5,371,436	$5,371,436	$5,371,436
Other Soft Costs	$12,760,668	$12,760,668	$12,760,668
Subtotal Soft Costs	$18,132,103	$18,132,103	$18,132,103
Financing Costs			
Total Financing Costs	$4,733,831	$4,733,831	$4,733,831
Total Development Costs			
Total Development Costs	$98,715,684	$98,715,684	$98,715,684
per unit	$580,680	$580,680	$580,680
per gross residential sf	$664	$664	$664
Financial Feasibility			
Net Revenue (a)	$13,272,515	$14,869,866	$11,388,815
Yield on Cost (b)	4.82%	4.89%	4.74%

(a) Net revenue is the project total capitalized value minus total development costs.
(b) Yield on cost is the total project net operating income divided by total development costs.
Source: Strategic Economics.

FIGURE 13: ALTERNATIVE 3 RENTAL PROTOTYPE OPTION 2: MIXED-USE, 45-FEET

Prototype	Scenario 1 (15% BMR targeting VLI, LI, Mod)	Scenario 2 (15% BMR targeting LI and Mod)	Scenario 3 (20% BMR targeting VLI, LI, and Mod)
Revenues			
Net Operating Income	$4,479,528	$4,543,422	$4,404,180
Residential Net Operating Income	$4,479,528	$4,543,422	$4,404,180
Total Capitalized Value	$105,400,658	$106,904,047	$103,627,764
per unit	$658,754	$668,150	$647,674
Development Costs			
Land Costs			
Land cost per sf	$275	$275	$275
per unit	$94,571	$94,571	$94,571
Hard Costs			
Site Prep	$1,375,579	$1,375,579	$1,375,579
Residential Building Area	$37,552,941	$37,552,941	$37,552,941
Retail Building Area (Including TIs)	$1,120,000	$1,120,000	$1,120,000
Parking	$12,152,000	$12,152,000	$12,152,000
Subtotal Hard Costs	$52,200,520	$52,200,520	$52,200,520
per unit	$326,253	$326,253	$326,253
per gross residential sf	$396	$396	$396
Soft Costs			
City Permits and Fees	$5,055,469	$5,055,469	$5,055,469
Other Soft Costs	$23,722,777	$23,722,777	$23,722,777
Subtotal Soft Costs	$28,778,246	$28,778,246	$28,778,246
Financing Costs			
Total Financing Costs	$4,101,250	$4,101,250	$4,101,250
Total Development Costs			
Total Development Costs	$87,586,780	$87,586,780	$87,586,780
per unit	$547,417	$547,417	$547,417
per gross residential sf	$665	$665	$665
Financial Feasibility			
Net Revenue (a)	$17,813,878	$19,317,267	$16,040,984
Yield on Cost (b)	5.11%	5.19%	5.03%

(a) Net revenue is the project total capitalized value minus total development costs.
(b) Yield on cost is the total project net operating income divided by total development costs.
Source: Strategic Economics.

FIGURE 14: ALTERNATIVE 3 RENTAL PROTOTYPE OPTION 3: MIXED-USE, 55-FEET

Prototype	Scenario 1 (15% BMR targeting VLI, LI, Mod)	Scenario 2 (15% BMR targeting LI and Mod)	Scenario 3 (20% BMR targeting VLI, LI, and Mod)
Revenues			
Net Operating Income	$5,375,434	$5,452,106	$5,285,016
Residential Net Operating Income	$5,375,434	$5,452,106	$5,285,016
Total Capitalized Value	$126,480,790	$128,284,856	$124,353,317
per unit	$658,754	$668,150	$647,674
Development Costs			
Land Costs			
Land cost per sf	$275	$275	$275
per unit	$78,809	$78,809	$78,809
Hard Costs			
Site Prep	$1,375,579	$1,375,579	$1,375,579
Residential Building Area	$45,063,529	$45,063,529	$45,063,529
Retail Building Area (Including TIs)	$1,120,000	$1,120,000	$1,120,000
Parking	$14,392,000	$14,392,000	$14,392,000
Subtotal Hard Costs	$61,951,108	$61,951,108	$61,951,108
per unit	$322,662	$322,662	$322,662
per gross residential sf	$392	$392	$392
Soft Costs			
City Permits and Fees	$6,066,563	$6,066,563	$6,066,563
Other Soft Costs	$13,009,733	$13,009,733	$13,009,733
Subtotal Soft Costs	$19,076,295	$19,076,295	$19,076,295
Financing Costs			
Total Financing Costs	$4,869,808	$4,869,808	$4,869,808
Total Development Costs			
Total Development Costs	$101,164,644	$101,164,644	$101,164,644
per unit	$526,899	$526,899	$526,899
per gross residential sf	$640	$640	$640
Financial Feasibility			
Net Revenue (a)	$25,316,146	$27,120,212	$23,188,673
Yield on Cost (b)	5.31%	5.39%	5.22%

(a) Net revenue is the project total capitalized value minus total development costs.
(b) Yield on cost is the total project net operating income divided by total development costs.
Source: Strategic Economics.