



REGULAR MEETING MINUTES

Date: 8/5/2020

Time: 6:30 p.m.

Regular Meeting Location: Zoom.us/join – ID #997-7506-7654

A. Chair Grove called the meeting to order at 6:36 p.m.

B. Roll Call

Present: Bigelow, Conroy, Grove, Horst, McPherson, Merriman, Pimentel

Absent: None

Staff: Deputy Community Development Director Rhonda Coffman,
Management Analyst II Mike Noce

C. Public Comment

- Pam Jones spoke about using alternative methods, such as housing trusts, to purchase properties for the purpose of preserving affordable housing for the community.

D. Regular Business

D1. Approve minutes for the Housing Commission meetings of July 1, 2020

ACTION: Motion and second (McPherson/Bigelow) to approve the Housing Commission meeting minutes of July 1, 2020, passed unanimously.

D2. ~~Review feasibility analysis of the City of Menlo Park's below market rate (BMR) inclusionary rental housing requirements and consider recommending City Council approve updates to the BMR Housing Program Guidelines~~ Review financial feasibility analysis of the City of Menlo Park's below market rate (BMR) inclusionary rental housing requirements and consider making related policy recommendations to the City Council (Staff Report 20-005-HC)

BAE Urban Economics representative Stephanie Hagar made the presentation (Attachment).

- Pam Jones spoke about the transportation and housing as well as Menlo Park analyzing the history of zoning, especially in District 1.
- Eric Morley with Signature Development spoke about market rate and affordable units proposed in the Willow Village development and recent economic impacts on rent, union labor and construction costs. (Attachment)

The Housing Commission discussed multiple recommendations to City policies.

ACTION: Motion and second (McPherson/Horst) to recommend the modification of the City of Menlo Park's BMR housing program to require additional low-income inclusionary housing for large developments, later defined, to 20% (e.g., increase from 15 to 20%) and increase the City's density bonus to match the increase or acceptable alternative with further study to provide developers with additional incentives such as

increased bonus density, passed (6-1, Conroy dissenting).

ACTION: Motion and second (Conroy/Pimentel) to recommend the modification of the City's BMR housing program to require two percent moderate income units in addition to the 15 percent low-income inclusionary requirement, passed (5-2, Grove and Horst dissenting).

ACTION: Motion and second (Pimentel/Conroy) to recommend increasing the residential zoning, development standards and other economic considerations, such as land dedication and commercial impact fees, to make rental housing projects more financially feasible, passed unanimously.

ACTION: Motion and second (Grove/Bigelow) to recommend the adoption of an in lieu fee to encourage the production of housing units based on the point of indifference and calculated as a per square foot fee and update every year, passed unanimously.

E. Reports and Announcements

E1. Ad hoc subcommittee reports (10 minutes):

Deputy Community Development Director Rhonda Coffman introduced the item and shared that new ad hoc subcommittees will be created as needed and based on the current Housing Commission work plan items and priorities.

E2. Commissioner reports

Grove spoke about the Facebook and Y-Plan study scheduled to be presented at an upcoming City Council meeting.

E3. Recommended future agenda items.

Commissioner suggested future agenda items:

- Presentation on the history of zoning in Menlo Park
- Flood Park school site potential
- Economic factors that prevent high density housing in downtown Menlo Park

E4. Staff updates and announcements

Deputy Community Development Director Rhonda Coffman provided updates on:

- City Council approved the staff recommendation for short term rentals and approved a budget for the implementation with a third-party contractor in early 2021
- Facebook Y-Plan housing study presentation is scheduled for August 11, 2020
- San Mateo County Board of Supervisors approved additional assistance measures related to COVID-19 pandemic (\$2.3 million emergency assistance for tenants, \$2.0 million of financial assistance for property owners and \$1.0 million of assistance for legal services, mediation, etc.)

F. Adjournment

Chair Grove adjourned the meeting at 10:15 p.m.

Mike Noce, Management Analyst II, Community Development

Approved by the Housing Commission on September 2, 2020

City of Menlo Park
Inclusionary Housing Feasibility Analysis
Housing Commission Presentation
 August 5, 2020

Purpose of Inclusionary Feasibility Study

Analyze Four BMR Housing Scenarios:

- 1 Current Inclusionary Requirements
Test Financial Feasibility
- 2 20% Low-Income Requirement
Test Financial Feasibility
- 3 Current Requirement + 2% Moderate-Income Requirement
Test Financial Feasibility
- 4 "Point of Indifference" In-Lieu Fee
Identify Fee Rate

8 Multifamily Rental Prototypes

- 2 ECR / Downtown Area Prototypes
- 6 Bayfront Area Prototypes
 - 3 Lower Density – 30 du/acre base
 - 3 Higher Density – 100 du/acre base
- Density Bonus Assumptions:
 - City BMR Housing Program density bonuses = total number of BMR units
 - ECR / Downtown & Higher-Density Bayfront prototypes use City BMR Housing Program Density Bonus
 - Lower-Density Bayfront Area prototypes use State Density Bonus

8 Multifamily Rental Prototypes

	Prototype 1	Prototype 2	Prototype 3	Prototype 4	Prototype 5	Prototype 6	Prototype 7	Prototype 8
Typology	ECR/DT		Bayfront – Low Density		Bayfront – Higher Density			
Site Size (acres)	0.48	1.0	3.3	6.7	13.3	1	2	4
Units at Base Density	12	25	100	200	400	100	200	400
Units in Scenario 1 (Current Requirements)	13 Total 1 BMR	28 Total 3 BMR	128 Total 15 BMR	255 Total 30 BMR	510 Total 60 BMR	115 Total 15 BMR	230 Total 30 BMR	460 Total 60 BMR
Units in Scenario 1 (Current Requirements)	14 Total 2 BMR	30 Total 5 BMR	135 Total 20 BMR	270 Total 40 BMR	540 Total 80 BMR	120 Total 20 BMR	240 Total 40 BMR	480 Total 80 BMR
Units in Scenario 1 (Current Requirements)	14 Total 2 BMR	29 Total 4 BMR	128 Total 17 BMR	255 Total 34 BMR	510 Total 68 BMR	117 Total 17 BMR	234 Total 34 BMR	468 Total 68 BMR

Methodology – BMR Scenarios 1, 2, & 3 Financial Feasibility of Inclusionary Requirements

Preparation of static proformas for each prototype in each scenario:

1. Estimate total project development costs
2. Estimate total annual project revenues at stabilization – leads to estimate of project value
3. Is project value high enough to support a land purchase, after accounting for all other development costs?
 - Cost assumptions include a margin for profit

Methodology – BMR Scenarios 1, 2, & 3 Financial Feasibility of Inclusionary Requirements

- Assumptions based on published data sources, information on recent projects, interviews with developers
 - Hard construction costs (construction labor & materials)
 - Soft costs (City impact fees and other fees, CEQA costs, financing, architecture and engineering)
 - Market-rate and affordable rents
 - Capitalization Rates (Metric to estimate the value of a project based on the revenue it produces)
- Analysis conducted primarily in the first quarter of 2019

Methodology – BMR Scenarios 1, 2, & 3 Financial Feasibility of Inclusionary Requirements

	ECR/DT Prototypes	Bayfront – Low Density Prototypes	Bayfront – Higher Density Prototypes
Total Development Cost Before Land Costs	Approx. \$710 / sq. ft. \$890,000 / unit <i>Includes developer profit</i>	Approx. \$645 / sq. ft. \$640,000 / unit <i>Includes developer profit</i>	Approx. \$660 / sq. ft. \$600,000 / unit <i>Includes developer profit</i>
Avg market-rate rent	~\$4,600 / unit / month	~\$4,000 / unit / month	~\$3,700 / unit / month
Project Value in BMR Housing Scenario 1	~\$990,000 / unit	~\$790,000 / unit	~\$710,000 / unit

- Assumptions do not reflect possible economies of scale as projects move up in size within each prototype category
- Any cost reductions for these larger projects would be small relative to overall costs
- Lower per-unit development costs / rents / values for higher density projects reflect smaller average unit sizes & lower parking ratios

Findings: Scenarios 1, 2, and 3

High-Density Bayfront Area Prototypes

Community Amenities Bonus Level

- Current inclusionary requirements: Feasible
- 20% inclusionary requirement: Feasible
 - If added inclusionary counts toward community amenity requirement
- Current requirement + 2% moderate-income requirement: Feasible

Findings: Scenarios 1, 2, and 3

Low-Density Bayfront Area Prototypes

Non-Community Amenities Bonus Level

- Financial feasibility challenges
- Regardless of inclusionary requirements, Menlo Park is unlikely to see these types of projects in the future
 - Community amenities bonus projects can be built on the same sites and can pay more for land
 - Developers reported limited recent interest in pursuing this type of project in the region

Findings: Scenarios 1, 2, and 3

ECR / Downtown Specific Plan Area Prototypes

- Financial feasibility challenges, regardless of inclusionary requirements
- Reflects high construction costs in the region
 - Disproportionate impact on projects with 25 or fewer units, which do not achieve the same design efficiencies as projects with 100+ units
- Projects may still move forward despite challenges
 - Commercial components may aid feasibility
 - Longer-term landowners with lower land costs
 - Developers that will hold projects until more profitable

Methodology – BMR Scenario 4 “Point of Indifference” In-Lieu Fee Rates

- Evaluate the in-lieu fee rates that are equal in cost to providing inclusionary units, from the developer’s perspective
 - Fees higher than this amount generally incentivize developers to provide inclusionary units
 - Fees lower than this amount generally incentivize developers to pay in-lieu fees (if allowed)

Methodology – BMR Scenario 4 “Point of Indifference” In-Lieu Fee Rates

- No fee payment is an exact equivalent to providing inclusionary units because:
 - In-lieu fee affects development costs
 - Providing inclusionary units affects operating revenue, which in turn affects project value
- Study estimated in-lieu fees that are approximately equal to the decrease in project value from making units affordable, compared to same project with all market-rate units

Findings: Scenario 4**All Prototypes**

- Fees that represent the point of indifference compared to providing units on site:
 - \$335,000 per BMR studio
 - \$351,000 per BMR one-bedroom
 - \$449,000 per BMR two-bedroom
 - \$723,000 per BMR three-bedroom
- Higher fees would generally incentivize providing inclusionary units
- Lower fees would generally incentivize fee payment

Findings: Scenario 4**All Prototypes**

- Point of indifference calculations do not account for effects of density bonuses
 - Bonuses partially offset cost of BMR units
 - Accounting for bonuses would result in lower point of indifference fee rates
- Point of indifference is sensitive to difference between market-rate and affordable rents
 - Fees that cost the same as providing units will vary over time and between projects

From: Eric Morley <emorley@signaturedevelopment.com>

Sent: Wednesday, September 2, 2020 3:24 PM

To: karenfgrove@gmail.com; jpimentel@whitehatrenew.com; curtisconroy@earthlink.net; rach.horst@gmail.com; Wendybmcpherson22@gmail.com; nevada.merriman@gmail.com; lauren.bigelow@gmail.com

Cc: Coffman, Rhonda L <RLCoffman@menlopark.org>

Subject: August 5, 2020 Housing Commission Minutes - Requested Amendments to DRAFT Minutes

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Chair Grove and Commissioners:

Thank you very much for the opportunity to speak on August 5, 2020 on Agenda Item D2., the BAE report related to the feasibility of potentially increasing the percentage of affordable housing for residential projects in Menlo Park. As I shared at the meeting, the Willow Village team is excited to deliver much needed market rate and affordable housing for the Menlo Park community at Willow Village.

After reviewing the DRAFT minutes and not being able to locate the Zoom meeting recording, I noted that the DRAFT minutes for the agenda item and BAE attachment do not have any reference to COVID-19 or the comments and discussion by Ms. Hagar, my comments and the Commission questions and discussions about the impacts of COVID on the BAE report financial assumptions. In current form, the DRAFT minutes and BAE Attachment would not provide decision makers or the public with the complete context, consultant verbal report and detailed public comments for the item.

For these reasons, I am writing to request the amendments below with deletions in ~~strikethrough~~ and additions underline:

- “Eric Morley with Signature Development spoke about market rate and affordable units proposed in the Willow Village development and partnership with City of Menlo Park to deliver high quality, affordable housing for the community. He explained that the underlying assumptions in the BAE report were created in 2019 and early 2020 prior to COVID-19; explained that the underlying assumptions of the BAE report were no longer valid due to financial impacts on housing construction, financing and financial underwriting from COVID-19 ~~on rents~~ including material decreases in rental rates; direct increases in vacancy rates in the Peninsula submarket including Menlo Park; and increases capitalization since March that differ from and impact the underlying assumptions and conclusions of the BAE report. Mr. Morley noted Signature Development’s and Facebook’s strong relationships with construction trade unions, commitment to provide union construction jobs on Willow Village and asked if increased costs as a result of union labor were factored into the underwriting assumptions of the BAE. He also noted that construction materials costs have not decreased during COVID-19. Mr. Morley requested that the Commission and City defer action on any increase until more accurate financial assumptions can be established and the long term impacts of COVID-19 are understood

so that the City does not inadvertently discourage or preclude the construction of affordable housing.”

- “BAE Urban Economics representative Stephanie Hagar made the presentation (Attachment) and discussed COVID-19 impacts on the assumptions of the report. Ms. Hagar explained that COVID-19 is a question and that the assumptions for the report were developed before the COVID-19 pandemic. She indicated that she is seeing negative residential market data over the past several months due to COVID-19. She said if she were to write the report at this time she would use new assumptions to reflect more recent market data due to the impacts of COVID-19.”

Again, we very much appreciate the opportunity to provide input and appreciate and share the Commission goal of delivering high quality market rate and affordable housing. We look forward to our continued partnership with the City of Menlo Park and thank you for your efforts, time and consideration of the above amendments.

Best,

Eric

Eric Morley
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