

ADMINISTRATIVE DRAFT Memorandum

To: Kyle Perata, and Payal Bhagat, City of Menlo Park

From: Stephanie Hagar, Associate Principal
Chelsea Guerrero, Vice President

Date: March 31, 2023

Re: Evaluation of 123 Independence Drive Community Amenities Proposal

Purpose

This memorandum provides BAE's assessment of the value of the community amenities proposal for the proposed residential project at 123 Independence Drive in Menlo Park. The City-approved appraisal for the project site identified a required amenity value of \$3,350,000, and the project applicant has submitted a community amenities proposal that consists of eight below-market-rate (BMR) units. The applicant has provided an assessment of the value of the community amenities proposal that estimates a total value of \$4,200,299. This memorandum does not assess whether the proposed amenity is appropriate or falls within the current amenity list adopted by City Council resolution, or whether the same amenity has already been provided by another applicant. This memorandum evaluates the methodology and key assumptions that the applicant used to determine the value of the proposed community amenity and provides BAE's determination of the value.

Key Findings

Table 1 below provides a summary of the value of the community amenities proposal that the project applicant has proposed as part of a request for bonus level development for a proposed project located at 123 Independence Drive in Menlo Park. As shown, BAE found the value of the proposed amenity to be equal to \$4,169,795, or \$819,795 more than the required \$3.35 million value.

Table 1: Summary of Community Amenity Proposal Valuation for Proposed 123 Independence Drive Project

	Dedication of Eight Additional BMR Units	Excess (Compared to \$3.35 million required)
Applicant Valuation	\$4,200,299 <i>Methodology: Incremental Construction Cost</i>	\$850,299
BAE Evaluation	\$4,169,795 <i>Methodology: Incremental Construction Cost</i>	\$819,795

Project Description

The proposed project at 123 Independence Drive in Menlo Park consists of 316 multifamily apartment units and 116 townhomes. The project site is located within the Bayfront Area of Menlo Park and the project applicant is seeking approvals to construct the project at the bonus level of development pursuant to the City’s community amenities program for the Residential Mixed-Use Bonus (R-MU-B) zoning district. The R-MU-B zoning district allows a project to develop at a greater level of intensity with an increase in density, floor area ratio, and/or height in exchange for providing community amenities, which are intended to address identified community needs that result from the effect of the increased development intensity on the surrounding community. Community amenities also enable the surrounding community to benefit from the substantial increase in project value that is attributable to the increase in density, floor area, and/or height. Full project details are available on the City of Menlo Park website (<https://menlopark.gov/Government/Departments/Community-Development/Projects/Under-review/123-Independence-Drive>).

Community Amenities Proposal

Because the project would be built at the bonus level of development, the project applicant is required to provide community amenities in exchange for the additional development potential that is allowable under the bonus level of development. In the case of the subject project, an appraisal commissioned by the City (available on the City website at the link shown above) determined that the value of the community amenity must equal \$3,350,000.

The project applicant has provided a community amenities proposal that consists of eight BMR apartment units that would be affordable to low-income households. In addition to the eight BMR units that would count toward the applicant’s community amenity contribution, the project would include an additional 48 BMR apartment units and 18 BMR townhome units that are required to meet the City’s BMR Housing Program requirements for the project, which would not count toward the community amenity requirement for the project. In accordance with the City’s BMR Housing Program, all BMR units in the project would be required to remain affordable for 55 years.

Valuation of Community Amenities Proposal

This section details the applicant's valuation of the community amenities proposal as well as BAE's valuation of the proposal. The applicant's valuation of the eight BMR units is based on the incremental costs associated with constructing the eight BMR units and parking spaces to serve the units, net of all costs that the developer would incur regardless of whether the applicant included the eight additional BMR units. The incremental cost approach recognizes that some costs associated with developing the project, such as construction costs for demolition, landscaping, foundation, roofing, and site work, would be incurred regardless of whether the additional BMR units are included in the project and are not affected by the inclusion of the eight additional BMR units. These costs are not included in the incremental cost associated with providing the BMR units as a community amenity. Similarly, the cost of constructing tenant amenities is not contingent on the addition of the eight BMR units and would be incurred even if the eight additional BMR units were not included in the project.

BAE reviewed the applicant's valuation of the proposal and found that the overall approach and methodology that the applicant used for the valuation is consistent with the approach that the City has used to value prior community amenities proposals. BAE's independent analysis of the proposal generally used the same methodology as the project applicant, though slight differences in the calculations led to minor differences between the applicant's valuation estimate and BAE's valuation estimate. In particular, the applicant's methodology included estimating the incremental construction cost of the entire parking garage and dividing that cost across all units in the project to estimate a per-unit cost for the parking garage, which was then applied to the eight additional BMR units. The project includes 336 parking spaces, at a ratio of 1.06 spaces per unit. Therefore, the applicant's methodology includes the cost of slightly more than one parking space per unit as part of the calculations for the total incremental construction cost for the eight BMR units. BAE's valuation included the cost of a single parking space per unit for each of the eight BMR units, resulting in a slightly lower overall incremental construction cost.

Project Applicant Valuation of BMR Units

As noted above, the applicant's valuation of the BMR units is based on the project applicant's estimate of the total per-unit incremental construction cost for the proposed project. As summarized in Table 2 below, the applicant's construction cost estimate for the project includes approximately \$133.6 million in hard costs for the residential portion of the building and approximately \$21.5 million in hard costs for the parking garage. The applicant's total hard construction cost estimate for the residential building space (\$133,639,810) excludes the estimated cost associated with constructing tenant amenity space. To estimate the incremental cost to construct the eight BMR units, the project applicant adjusted the hard cost estimates for the building space and the garage to remove line items that would not be directly impacted by the construction of the eight BMR units (i.e., demolition, sitework, landscaping, foundation, and roofing and waterproofing). After removing the costs for line items that would not be directly impacted by the construction of the eight BMR units, the project applicant's incremental hard construction cost estimate for the project equals \$ \$141.3 million. The applicant's valuation also

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includes \$24.6 million in soft costs, equal to approximately 17.4 percent of the incremental hard cost estimate, resulting in a total incremental construction cost estimate of \$165.9 million, or \$525,037 per unit (\$165,911,805 total estimated incremental construction cost ÷ 316 units in project). Based on this estimate, the applicant's valuation assesses the value of the eight BMR units at just over \$4.2 million (\$525,037 per unit x 8 BMR units).

Table 2: Applicant Valuation of BMR Units Provided as a Community Amenity

Building Hard Cost	\$133,639,810
Less: Hard Costs not Included in Incremental BMR Unit Costs	(\$9,607,260)
Garage Hard Costs	\$21,460,000
Less: Hard Costs not Included in Incremental BMR Unit Costs	(\$4,224,532)
Soft Costs	\$24,643,787
Total	\$165,911,805
<i>per Unit</i>	<i>\$525,037</i>
Total Value of 8 BMR Units	\$4,200,299
Assumptions	
Total Units in Project	316
BMR Units Provided as a Community Amenity	8

Sources: Sobrato Development Company, LLC; BAE, 2023.

BAE Valuation of BMR Units

Similar to the applicant's valuation, BAE's valuation is based on the estimated incremental costs to construct eight BMR units and associated parking spaces, net of all costs that the project applicant would incur regardless of whether these units and parking spaces are included in the project. To estimate the incremental costs to construct the eight BMR units and associated parking spaces, BAE relied on a project construction budget provided by the applicant in March 2023. The applicant's construction budget divides the total construction hard costs between residential building space and the parking garage. BAE adjusted the hard cost estimates for the building and garage to remove the estimated costs of tenant amenity space and other line items that would not be directly impacted by the construction of the eight BMR units. While this approach is similar to the approach used by the project applicant, BAE's approach calculated a per-unit cost for the residential portion of the building and a separate per-space cost for the parking garage. This approach allows for the analysis to include the cost of single parking space in the estimated incremental construction cost for each BMR unit, which differs from the applicant's approach in that the applicant included the cost of approximately 1.06 parking spaces in the incremental construction cost for each BMR unit.

These calculations result in estimated hard costs totaling \$392,508 per BMR unit and \$51,296 per parking space. BAE's analysis applies these costs to the eight BMR units, assuming one parking space per BMR unit, to estimate the total incremental hard construction costs for the eight BMR units. Consistent with the applicant's valuation, BAE's analysis applies a 17.4 percent soft cost

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assumption to the hard cost estimates to determine the value of the eight BMR units provided as a community amenity. As shown in Table 3 below, this analysis results in an estimated value of \$4,169,795 for the eight BMR units, or \$521,224 per BMR unit.

Table 3: BAE Valuation of BMR Units Provided as a Community Amenity

	Residential (Building)	Parking Garage	Total
Total Hard Costs (a)	\$144,330,995	\$21,460,000	\$165,790,995
Less: Estimated Hard Costs of Tenant Amenity Space (b)	(\$10,691,185)	\$0	(\$10,691,185)
Less: Hard Cost Items not Included in Incremental Const. Cost (a) (c)	(\$9,607,260)	(\$4,224,532)	(\$13,831,792)
Total Hard Costs for Items incl. in Incremental BMR Unit Const. Cost <i>per Unit / Parking Space</i>	\$124,032,550 \$392,508	\$17,235,468 \$51,296	\$141,268,018
	8 BMR Units	Parking for 8 BMR Units	Total Cost, 8 BMR Units
Total Incremental Hard Construction Costs	\$3,140,065	\$410,368	\$3,550,433
Total Estimated Soft Costs	\$547,775	\$71,588	\$619,362
Total Construction Costs	\$3,687,840	\$481,956	\$4,169,795

Assumptions

Total Units in Project	316
BMR Units Provided as a Community Amenity	8
Total Parking Spaces in Project	336
BMR Unit Parking Spaces	8
Soft Costs as a % of Hard Costs	17.4%

Notes:

- (a) Hard cost estimates are based on the construction budget provided by the project applicant.
- (b) Hard cost estimate for tenant amenity space provided by the project applicant.
- (c) Analysis assumes that hard costs items shown in the budget as demo, earthwork, and sitework; landscaping & irrigation; foundation; and roofing & waterproofing are not included in the incremental project cost attributable to the construction of the eight BMR units that would serve as a community amenity or the eight parking spaces that would serve these units.

Sources: Sobrato Development Company, LLC; BAE, 2023.