



DATE: September 10, 2019

CATEGORY: New Business

DEPT.: Community Development

TITLE: **Lot 12 Request for Qualifications Selection and Final Request for Proposals Components**

RECOMMENDATION

Approve inviting six Lot 12 Request for Qualifications respondents to participate in the forthcoming Lot 12 Request for Proposals and provide final direction on certain Request for Proposals components.

BACKGROUND

Over the past few years, the City Council has held various Study Sessions on development priorities for Lot 12, a 1.5-acre lot owned by the City and located in downtown Mountain View. Currently used as a temporary public parking lot (160 spaces), Lot 12 was assembled as a prime redevelopment opportunity given its location and proximity to retail, services, amenities, and major transit lines/corridors. At the last Lot 12 Study Session held in October 2018, the City Council identified the following priorities:

- **Residential:** Up to 120 residential units, with a minimum 50 percent of the units as affordable for households earning up to 120 percent of the area median income (AMI) adjusted for household size. Flexibility on target population.
- **Nonresidential Use:** Include up to 10,000 square feet of ground-floor nonresidential use(s). Flexibility on type of use(s), but the Council was not supportive of office use. Desire for unique or innovative uses that can also create a sense of place and serve the residents as well as the broader community. Potential for minimal City contribution to help subsidize desirable uses, but a specific amount was not specified.
- **Height and Design:** Flexibility on height (up to six stories versus three stories as stated for Area C), and must incorporate excellent architecture, design, and transitions between adjacent residential uses.

- **Parking:** Replace all 160 public parking spaces and sufficiently park the new uses, but be innovative, incorporate design flexibility, and include a robust transportation demand management (TDM) strategy. There could be support for lower parking ratios for residential and nonresidential if the ratios can be demonstrated to be sufficient when considered in context with the project's design and parking/TDM strategy.
- **Placemaking:** Support for creating a sense of place and for the Lot 12 development to function as a community asset both for the residents of Lot 12 and for the adjacent communities. Examples of amenities ranged from gardens, community art, playground, a water structure, etc. Something different and unique and that can accomplish a sense of community. Recognition that retail could be more difficult, or needs to be differentiated, due to its location, but would like appropriate retail/mixed-use to be incorporated if possible.

A more detailed summary of Council direction was incorporated into the Lot 12 Request for Qualifications (RFQ) (see Attachment 1). The RFQ was released May 15, 2019 and closed August 1, 2019. The City received seven submittals, but one withdrew after the RFQ had closed, for a total of six submittals.

It is important to note that a key element that Council desired for the Lot 12 RFQ was flexibility in what potential applicants could submit, in the hopes of yielding a variety of innovative, unique concepts. Council will need to provide more specific direction on certain components to be incorporated into the forthcoming Lot 12 Request for Proposals (RFP) so that respondents have clear criteria to use for developing—and staff for evaluating—their RFP submittals. RFP criteria will be discussed later in the Analysis section below.

ANALYSIS

Lot 12 RFQ Evaluation Summary and Recommendation

Six RFQ responses were submitted by the following development teams, in alphabetical order: Affirmed Housing, EAH Housing, Eden Housing, McCormack Baron Salazar, MidPen Housing, and Related/Palo Alto Housing. A panel consisting of City staff in Community Development, Public Works, Finance, and the City Attorney's Office, as well as Seifel Consulting, evaluated each of the submittals according to the criteria stated in the RFQ, including: (1) Meeting RFQ Goals and Requirements; (2) Experience; and (3) Financial. Due to RFQ confidentiality requirements, below is a general

description of the submittals, and Attachment 2 provides a high-level summary in randomized order (i.e., not in alphabetical order).

- **Overall:** Each submittal has unique elements, benefits, and tradeoffs due to the flexibility that was part of the RFQ, but they all shared certain characteristics. Additionally, the development teams recognized there are different ways to achieve Lot 12 priorities. Some development teams showed different financing strategies and ways to respond to various elements of the RFQ, and all teams specifically acknowledged that this is an iterative process requiring discussions with the City (if selected) to finalize the development program. Staff concurs that the purpose of an RFQ process is to provide an opportunity for applicants to clearly demonstrate their qualifications, and that the concepts/details are subject to change and are best seen as illustrative and iterative rather than concrete.

Most importantly, at this stage in the Lot 12 marketing process, all submittals sufficiently demonstrated that: (1) they would be able to meet the RFQ goals and requirements; (2) the development teams have experience relevant to Lot 12; and (3) the teams have the financial experience and capacity to finance a Lot 12 project according to the City's priorities. Thus, staff recommends all six be allowed to proceed to the RFP.

- **Residential:** All of the submittals were 100 percent affordable projects that had at least 120 units. Four of the six proposed projects would serve households between 30 percent to 80 percent AMI; one project would serve 30 percent to 120 percent AMI; and one project would only serve moderate-income households (80 percent to 120 percent AMI).
- **TDM:** Each submittal included a response regarding transportation demand management (TDM) strategies as required by the RFQ. Several of the submittals included similar TDM strategies, and this would be a component that would be further refined during the negotiation and entitlement process with the selected development team. The importance of a robust TDM program will be reaffirmed in the RFP.
- **Parking:** Every submittal included full replacement of the 160 public parking spaces. However, there was a wide range of parking proposals for the residential uses (ranging from 48 spaces at 0.4 space per unit to 180 spaces at 1.5 spaces per unit) and for the mixed-use/retail component (ranging from five to 23 spaces). Therefore, total parking ranges from 223 to 355 total spaces. In addition, some of the proposers provided most of the parking underground (up to two levels below grade), while others provided a substantial amount of parking above grade (either

within a podium structure lined by other uses or a multi-level, above-grade structure).

The wide variation in the parking plans is an important (but not the only) contributor to the wide range of City subsidy requests (discussed further below). In general, the proposed projects with the highest number of residential parking spaces with the greatest amount of underground parking had the highest development cost and required the largest amount of subsidy. Additionally, although not all submittals requested a City subsidy for the replacement parking, four submittals made a relatively substantial request specifically for parking subsidies to replace the 160 spaces. Therefore, the amount of parking (both the replacement and the residential parking) is a significant factor in the development cost, feasibility, and subsidy requests for Lot 12, and this was anticipated and discussed during the October 2018 Lot 12 Council Study Session.

- **Placemaking/Mixed-Use:** The submittals included a variety of placemaking strategies to be achieved through design, amenities, and nonresidential mixed-use. Design elements include the architecture of the building(s), the incorporation of publicly accessible plazas, and public art, for example. Examples of creative placemaking through mixed-use include a kitchen incubator/restaurant, cafés run by nonprofits, a community food hall, a wellness and education space, space for nonprofit organizations, and child-care facilities. Again, at this point in the Lot 12 process, it is best to view the placemaking strategies as illustrative of the development teams' thought process and approach and to view the specific concepts as components that are subject to modification and iteration. The Council supported the concept of a modest amount of nonresidential/retail subsidy, and three of the submittals did request such a subsidy from the City (see below). For the Lot 12 RFP, it is recommended that the Council provide clear direction on if or up to how much nonresidential/retail subsidy it would provide.
- **Height:** At the October 2018 Study Session, Council supported greater heights (up to six stories) and densities (yielding up to 120 units) for Lot 12 than what is currently allowed in Area C of the Downtown Precise Plan but required excellent design and sensitivity to adjacencies. Each of the submittals identified potential Precise Plan deviations, such as for existing height, density/FAR, parking, setback, and open-space requirements. The submittals include heights up to four to six stories at the tallest point and unit counts between 120 units to 137 units (the highest potential number of units proposed assumes a greater proportion of smaller studio units). Most designs include transitions between and step-backs from the adjacent residential uses to the west (primarily single-family homes and smaller multi-family structures located in an R-4 Zone), although one submittal

includes two separate structures (one for an above-grade, stand-alone parking structure) that are five and six stories that appear to have buffers but not step-backs.

The City is currently working on the Downtown Precise Plan modification item that was included in the Fiscal Years 2019-21 Council Major Goals work plan, but changes to Area C are currently not part of that scope of work. Therefore, any deviations from the Precise Plan (beyond what would be allowed with the use of a State Density Bonus) would require an amendment, which would be incorporated into the Lot 12 entitlement process. To provide greater certainty, it is recommended that the Council confirm if there is still support for heights up to six stories (with excellent design and appropriate transitions to the adjacent residential neighborhood) and a unit count up to 120 units (or whether more units may be allowed, as two submittals include slightly higher unit counts).

- **Requests for City Subsidies:** All submittals included a request for City funding, but the development teams asked for different amounts of subsidies and leveraged different sources of outside funding. The development costs and subsidies are driven primarily by the AMI ranges, lack of outside subsidy sources for units affordable to moderate-income households, the number of parking spaces (both replacement public parking and residential parking), and the parking plan (e.g., whether the parking is provided underground or in above-grade structures).
 - Every submittal requested subsidies for affordable housing, ranging from approximately \$3 million (\$25,000 per unit) to over \$27 million (\$220,000 per unit).
 - Four submittals included requests for a City subsidy specifically for the replacement parking requirement, ranging from \$3.7 million (\$23,000 per space) to \$12 million (\$75,000 per space).
 - Three submittals included requests for a nonresidential/retail subsidy, ranging from \$426,000 to \$1.8 million.
 - The total subsidy requests (including affordable housing and any parking or nonresidential subsidy) ranges from approximately \$13 million to \$38 million/\$41 million.
 - Note that every team assumed a nominal ground lease payment to the City at a ground rent that is significantly below market value (for example, \$1 per year), and this substantial discount is on top of the actual subsidy request.

Unlike a 100 percent affordable housing project seeking City funding through the NOFA process, the RFQ process does not allow staff to discuss with respondents details of their submittals, including financials and development cost assumptions (except to request clarifying information). Staff anticipates that these subsidy requests will change, given that the Lot 12 RFP will ask for more detailed financial information, the applicants might modify their approach, and there will be negotiations with the future selected development team. Therefore, the current numbers should be viewed more as illustrative of the developer team approaches, rather than as absolute and fixed numbers, and as confirmation that there will likely be a sizeable City contribution towards the development of Lot 12 no matter which team is ultimately selected.

As noted above, based on review of the RFQ responses, staff recommends all six Lot 12 RFQ respondents be invited to participate in the forthcoming Lot 12 RFP process. Given the diversity of project approaches shown in the RFQ responses, staff has identified topics where Council confirmation and direction are requested to guide and clarify the RFP process, as discussed in the following sections.

Final Direction on Key Components for Lot 12 RFP

Staff seeks Council's final direction on certain key components to be incorporated into the Lot 12 RFP. This will: (1) allow the invited development teams to respond with greater clarity and specificity; and (2) provide staff clear criteria to evaluate the RFP submittal(s). There are several components where additional specificity will greatly help the RFP process, and they are ultimately connected to the amount and type of subsidy that the Council would support for the development of Lot 12. These components include parking requirements/subsidy, height, nonresidential/retail subsidy, and AMI levels/affordable housing subsidy.

Parking

Parking is one of the most significant drivers of the development cost, financial feasibility, and City subsidy amount for Lot 12. Required replacement of all 160 parking spaces is a significant development cost. In order to most effectively replace 160 public parking spaces, parking would likely need one level underground or in a fairly large above-grade structure. For the October 2018 Study Session, economic modeling indicated that a 100 percent affordable project with all 160 parking spaces replaced (likely on one level below grade), 75 units, a 0.5 residential parking ratio, and minimal nonresidential parking could require a subsidy of up to \$19 million. Five of the six RFQ submittals (all with 120 or more units) requested total subsidies ranging

from \$11.49 million to \$17.80 million, and one request was up to \$41 million, suggesting that the economic modeling provided a reasonable estimate of the subsidy needed for project feasibility. Similarly, the economic modeling showed the other end of the spectrum, estimating a total subsidy gap of up to \$6 million without replacement and nonresidential parking provided. Parking in-lieu fees cannot be used as a parking subsidy, as those funds are for *additional* parking created and not for replacing existing spaces. If the Council wishes to provide a subsidy for the replacement parking, it would likely need to come from the General Fund.

Question 1: (a) Does the Council still support replacing all 160 public parking spaces on-site? (b) Does the Council support providing any City subsidy for the replacement parking? If so, is there a cap to the City's subsidy?

In addition to the replacement parking, the amount of parking for residential and nonresidential uses significantly impacts the development cost and amount of City subsidy. In general, the lower the parking ratio and number of spaces, the lower the cost and subsidy amount (holding other factors constant). As mentioned, residential parking in the submittals range from 48 to 180 spaces (0.4 space per unit to 1.5 spaces per unit). In the October 2018 Study Session, Council supported lower parking ratios for affordable housing if it could be supported by a parking study. As context, Council has supported lower parking ratios for recent affordable housing projects (e.g., 0.43 space per unit for 1701 El Camino Real and 0.39 space per unit for 950 El Camino Real) given their proximity to high-quality transit and amenities, other TDM strategies, special-needs populations, and supported by a parking study. Non-special needs affordable housing have had higher ratios, such as Franklin Street Apartments in downtown Mountain View (1.5 spaces per unit, but property management has indicated that many of the spaces are not used) and 779 Evelyn Street (1.75 spaces per unit).

Lot 12 is close to high-quality transit, amenities, services, and healthcare (Kaiser), and some of the submittals indicate openness to providing housing for special-needs populations. All of the submittals are 100 percent affordable housing, which typically have lower parking demand, and four submittals have residential parking ratios less than 0.75 space per unit. As a result, staff recommends stipulating a maximum residential parking ratio for the RFP (such as 0.75 space per unit maximum (or lower)) and allowing the selected development team to propose a lower ratio supported by a parking study. Further discussion on nonresidential parking is in Question 4 below.

Question 2: Does the Council support a maximum parking ratio for the affordable housing units?

Height

The other variable that impacts feasibility is height. As mentioned, greater heights allow for more units (which is a more efficient use of land), decrease the relative amount of City subsidy needed per unit, and typically increase project feasibility. Because modification of Area C is not currently part of the City-initiated Downtown Precise Plan amendment, a project over three stories would be a deviation from the Precise Plan, and the selected Lot 12 developer would need to include a separate amendment to achieve heights beyond what would be allowed under State Density Bonus Law. It is recommended that, if Council continues to support six stories with excellent design and transitions, it reaffirms this direction for the RFP so that uncertainty is minimized and developers have clear parameters to work with when responding to the RFP.

Question 3: Does the Council continue to support heights up to six stories for the Lot 12 RFP, with excellent design and transitions?

Nonresidential/Retail Subsidy

As mentioned, three of the submittals include a request for a modest amount of subsidy for the nonresidential/retail component (approximately \$426,000 to \$1.8 million). At the October 2018 Study Session, Council supported such a subsidy, recognizing that it could be more financially challenging to include retail uses given the location of Lot 12 (i.e., one block away from Castro Street). The submittals included different concepts to create a sense of place through creative use of the nonresidential mixed-use space, which is one of the goals of Lot 12. Any City funding would likely need to be from the General Fund.

As an alternative or in addition to City funding, Council could provide direction for lower or no parking requirements needed for nonresidential uses. Because parking has a direct impact on development costs, low or no parking requirements would help with project feasibility and reduce/eliminate the need for the City to subsidize the nonresidential portion of the project. The submittals include five to 23 parking spaces for the nonresidential portion of the projects.

Question 4: (a) Does the Council continue to support a modest subsidy for the nonresidential/retail component for Lot 12? If so, is there a cap to the City's subsidy? (b) Does Council support low/no parking requirements for the nonresidential mixed-use portion of the project?

AMI Levels

Council wished to provide flexibility on the AMI levels for the affordable units by allowing AMI levels to go up to 120 percent AMI. Council did not specify any other direction on AMI levels. Two of the six submittals included moderate-income units (excluding units available to on-site managers), one of which was all moderate-income units, while four submittals did not include any moderate-income units. The following are some key considerations for determining if moderate-income units are desired for Lot 12:

- Moderate rents at 100 percent AMI are similar to average rents Citywide, including older, rent-stabilized units, and 120 percent AMI rents could actually be higher than typical rents for older properties.
- Conversely, moderate rents are significantly lower than market rents at newer apartment complexes, and rents at the 30 percent to 80 percent AMI level are much lower than market rents. However, affordable housing programs historically have not subsidized moderate-income units because those rents were often higher – or just under – market rents. While Mountain View’s current market rents for newer units are significantly higher than moderate-income rents, that was not always the case.
- Because moderate-income units do not qualify for affordable housing tax credits, projects that include that income category will likely need more City subsidy.
- The City currently has approximately \$41 million in unreserved housing funds composed of housing impact fees (approximately \$37 million) and a smaller amount in BMR in-lieu fees (approximately \$5 million). While BMR in-lieu fees can fund units up to 120 percent AMI, housing impact fees are limited to units up to 80 percent AMI.

For the RFP, it would be helpful if Council has any specific priorities for AMI levels and input on moderate-income units. Without more specific guidance, it would be difficult to evaluate whether an RFP submittal that includes moderate-income units is stronger than a submittal that does not include moderate-income units. Note that a preference for moderate-income units could impact proposals that currently do not have moderate-income units or could cause those applicants to significantly change their development program/concepts. Similarly, if Council expresses a preference to not include moderate-income units, it may impact the two RFQ submittals that currently do have moderate-income units, though it is probably easier to remove moderate-income units than it is to add them.

Alternatively, the Council could indirectly address the issue of AMI levels by stipulating the maximum amount of affordable housing subsidy the Council would support for Lot 12. The City's average per-unit subsidy across all of its affordable housing projects (all of which target 30 percent to 60 percent AMI units) is approximately \$180,000 per unit. This average includes the most recently funded project at 950 El Camino Real, which is approximately \$315,000 per unit due to the special-needs population served, lack of Measure A funds, and continued increases in land and construction costs. The four RFQ submittals that include only units in the 30 percent to 80 percent AMI range seek an affordable housing City subsidy from \$67,000 per unit to \$130,000 per unit. The two submittals that include moderate-income units seek \$23,000 per unit and \$220,000 per unit, which is a wide range.

Question 5: Does Council have more specific guidance on AMI levels, including if there is a preference for including or not including moderate-income units? Or does the Council prefer to stipulate a maximum per-unit affordable housing subsidy amount?

Summary of Questions

The following is a summary of questions. Council's input on these questions will be used to finalize the Lot 12 RFP.

Question 1: (a) Does the Council still support replacing all 160 public parking spaces on-site? (b) Does the Council support providing any City subsidy for the replacement parking? If so, is there a cap to the City's subsidy?

Question 2: Does the Council support a maximum parking ratio for the affordable housing units?

Question 3: Does the Council continue to support heights up to six stories for the Lot 12 RFP, with excellent design and transitions?

Question 4: (a) Does the Council continue to support a modest amount of subsidy for the nonresidential/retail component for Lot 12? If so, is there a cap to the City's subsidy? (b) Does Council support low/no parking requirements for the nonresidential mixed-use portion of the project?

Question 5: Does Council have more specific guidance on AMI levels, including if there is a preference for including or not including moderate-income units? Or does the Council prefer to stipulate a maximum per-unit affordable housing subsidy amount?

NEXT STEPS

Staff anticipates finalizing and releasing the RFP in early November 2019 with responses due early 2020. It is anticipated that Council will make a recommendation on the preferred developer team late Q1/early Q2 2020, which would be followed by the exclusive right to negotiate period. Staff is targeting submittal of development plans and application in Q4 2020, but that target may fluctuate depending on the duration of the negotiation period and when execution of a disposition and development agreement between the selected developer and City occurs.

FISCAL IMPACT

Lot 12 will require City subsidy, but the specific fiscal impact to the City is not known at this point. The actual amount of subsidy will depend on the RFP requirements/priorities and how the development teams respond. Currently, all developers have requested City housing funds, four have requested subsidies for the replacement parking, and three have requested City funds for the nonresidential/retail use. There is not a readily available source of funding for subsidies other than for the affordable housing units. Additionally, all RFQ submittals assumed nominal ground leases, which represent forgone revenue to the City (which aligns with Council direction that Lot 12 is not intended for revenue generation). The fiscal impact will be known once the development team is selected via the RFP process and the financial details finalized through the exclusive right-to-negotiate period.

CONCLUSION

The City released the Lot 12 RFQ on May 15, 2019 and closed the RFQ on August 1, 2019. The City initially received seven submittals but one withdrew, leaving six remaining. Each of the six development teams have strong financial capacity and experience developing affordable housing in urban areas. Each of the submittals includes at least 120 units that are 100 percent affordable. However, the submittals differ in many ways, including the proposed AMI levels, parking plans, placemaking strategies, and subsidy requests. At this stage in the Lot 12 marketing process, it is recommended that all six development teams be invited to respond to the forthcoming RFP.

It is also recommended that Council provide more specific direction/parameters on four key components. Council input will be incorporated into the RFP, and the added specificity/clarity will help staff to evaluate the RFP submittals and to recommend a preferred developer team to the Council for consideration.

ALTERNATIVES

1. Provide additional direction/specificity on other Lot 12 RFP components.
2. Eliminate one or more of the RFQ applicants based on clear criteria.
3. Allow a broader set of developer teams to respond to the forthcoming Lot 12 RFP.
4. Provide other direction.

PUBLIC NOTICING

Agenda posting and notices sent within a 750' radius and to Lot 12 RFQ applicants.

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821-09-10-19CR
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- Attachments:
1. Lot 12 RFQ
 2. RFQ Evaluation Summary