

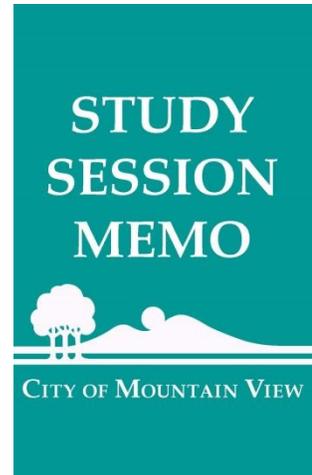
DATE: October 9, 2018

TO: Honorable Mayor and City Council

FROM: Wayne Chen, Assistant Community Development Director

VIA: Daniel H. Rich, City Manager

TITLE: **Direction on Development Priorities for Lot 12**



PURPOSE

The purpose of this Study Session is for the City Council to provide final input on development priorities in preparation of the Request for Qualifications/Request for Proposals (RFQ/RFP) for the marketing of Lot 12.

BACKGROUND

The City of Mountain View has a key opportunity to redevelop a prime downtown site known as Lot 12, the marketing of which is on the Fiscal Year 2017-19 Council Major Goals Work Plan. Lot 12 is a rectilinear parcel of approximately 1.5 acres, with frontage on California Street, Bryant Street, and Mercy Street. Lot 12 is located in the Downtown Precise Plan, Area C—Bryant Street Mixed-Use Transition Area, and benefits from its superb location, given its proximity to public transportation, jobs, retail, restaurants, services, and amenities. This provides a rare opportunity to create a signature transit-oriented development of a scale that meets the needs of the City and of the community, while adding to the vitality and the pedestrian realm of downtown.

Lot 12 involved the acquisition and assemblage of several properties over a period of years for the express purpose of redevelopment. The City first marketed Lot 12 for development nearly a decade ago, but it did not receive quality submittals at that time. The site has been used in the interim as public parking and currently has 160 public parking spaces. The Precise Plan’s intent is for mixed-use development with ground-floor commercial on Mercy Street and California Street, but the Plan allows a 100 percent residential project. The Plan also allows a



broad range of housing types. The following are key provisions of the Precise Plan:

- Residential (up to 50 dwelling units (DU)/acre) along the midblock Bryant Street frontage and all upper floors, which could generate approximately 75 units on this site. Provides density flexibility for affordable housing, efficiency units, and senior housing.
- Building heights up to three stories.
- Ground-floor commercial at the corners and along Mercy Street and California Street, including retail, personal/business services, and art galleries.
- Upper-floor office at the corners and along Mercy Street and California Street.
- The Precise Plan also allows certain provisional uses if they are compatible with the surrounding uses and support the intent of the Precise Plan.

Council Input from October 2017 Study Session

The City Council has held three Study Sessions related to Lot 12, including one in January 2015 regarding downtown development opportunities (Lots 4, 8, 11, and 12), and two in April 2016 and October 2017 on Lot 12 specifically. See Attachment 1 for the October 2017 Study Session report. At the October 2017 meeting, Council provided input on six questions. The questions and summaries of responses are as follows:

Question 1: Does the Council wish to maintain the initial direction regarding the mix of affordable and market-rate housing, heights and density, and population preference, or does the Council wish to modify the initial direction?

- Support for a minimum of 50 percent affordable housing.
- Support for increased heights, but be sensitive to existing neighborhood.
- Support for flexibility on the population. Does not need to be for seniors.

Question 2: Does the Council wish to maintain the initial direction that all 160 parking spaces be replaced?

- Yes.

Question 3: Does the Council wish to consider a Transportation Demand Management (TDM) program for the development of Lot 12, which may include items for consideration such as lower parking ratios, shared parking program, transit amenities/facilities, and transit alternatives?

- Yes.

Question 4: Does the Council wish to identify any particular amenities that should be explored or included in the Request for Qualifications (RFQ)/Request for Proposals (RFP) in order to enhance the ability of Lot 12 to create a sense of place and to function as a community asset? Does the Council wish to require retail or commercial uses on the ground floor?

- Support for creating a sense of place and to function as a community asset.
- Input on types of amenities ranged from gardens, community art, playground, water structure. 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.

Question 5: Does the Council wish to maintain the initial direction that revenue generation is not a priority goal of the development of Lot 12?

- Yes.

Question 6: Does the Council have any other direction to staff regarding the marketing of Lot 12?

- Limited/mixed input on this question without general consensus.

Based on Council's input, staff worked with Seifel Consulting to conduct financial modeling of Lot 12 under different development scenarios. The purpose of this assessment is to provide some "ground-truth" to the development capacity and feasibility of the site based on Council priorities. A summary of the feasibility study is provided in the Discussion section below, followed by questions for the Council. Final input from the Council will be used to develop and initiate the RFQ/RFP for Lot 12. Note that the purpose of the financial modeling is to provide a general understanding of project economics and tradeoffs based on certain parameters, assumptions, and estimates. It is not intended to establish precise or final conclusions about feasibility due to the complexities that come with numerous variables and possibilities that could be modeled.

Separately, staff has also initiated work on preliminary assessments for Lot 12 as indicated in the October 2017 Study Session, including:

- Contract for and obtain Phase I and II Environmental Site Assessment.
- Obtain a Title Report to determine the location and terms of any easements or other third-party rights.
- Prepare a Parcel Map to merge the legal lots that currently exist into a single lot.
- Prepare an American Land Title Association (“ALTA”) Survey to locate boundary lines and the location of any utilities affecting the property.
- Review Planning considerations.
- Review on- and off-site infrastructure requirements.

Pertinent information from the preliminary assessments would be included in the marketing material for Lot 12.

DISCUSSION

Development Scenarios and Parameters

As mentioned, the financial modeling considered different development scenarios. This includes modeling a development under what the Precise Plan currently allows (“base scenario”) for Lot 12, as well as additional development capacity given Council’s support for greater heights and more units on the site. The alternatives with additional capacity were developed to be sensitive to adjacent properties and neighborhood areas communities regarding heights, massing, stepbacks, and setbacks while maximizing the development potential of the site to help with project feasibility.

Key parameters in the study include:

- Three development scenarios
 - 70 to 80 units
 - 115 to 120 units

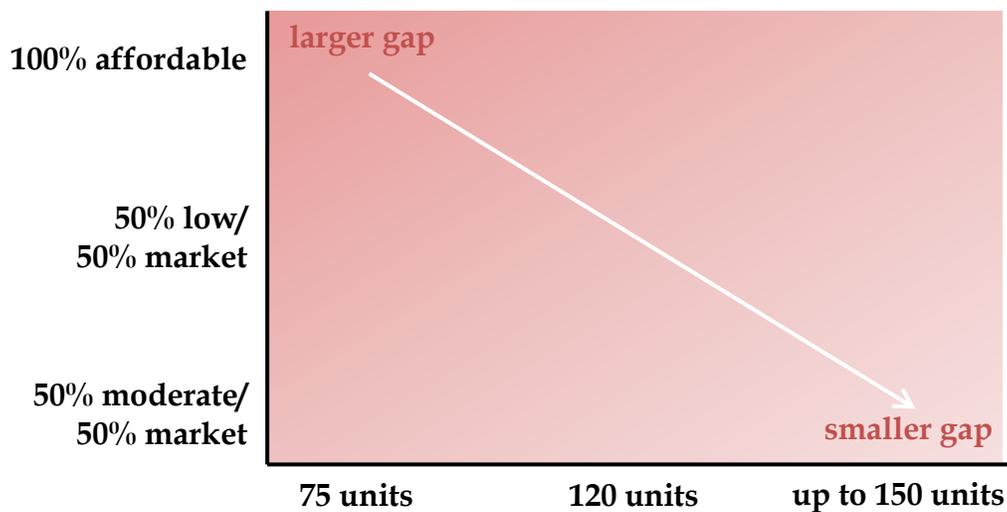
- Up to 150 units
- Three affordability scenarios:
 - 100 percent low-income units. (Assumed affordability range of up to 80 percent area median income (AMI) with a weighted average of 59 percent AMI.)
 - 50 percent low-income units, 50 percent market-rate units. (Assumed affordability range of up to 80 percent area median income (AMI) with a weighted average of 59 percent AMI.)
 - 50 percent moderate-income units (weighted average of 110 percent AMI), 50 percent market-rate units.
- Unit mix
 - Includes range of unit types from studios up to three-bedroom units.
- Land use mix
 - Base scenario includes 5,000 square feet of retail.
 - Alternative scenarios include retail and community space (5,000 square feet each) to meet goals of creating place and a sense of community.
 - No revenue assumed for community space.
- Parking
 - Replacement of all 160 public parking spaces.
 - Maximum parking ratios of 0.5 space per unit for the affordable units and 0.75 space per unit for the market-rate units.
 - Additional parking spaces for retail and community space (up to 34 additional spaces total).
 - Parking scenarios include a mix of above-grade, partially below-grade, and below-grade parking facilities.

- Park fee of \$60,000 per market-rate unit.
- No significant land cost to the developer with land remaining in City ownership subject to a long-term ground lease. As such, rental housing is assumed to be most viable on the site.

Summary of Financial Modeling

Based on the above key parameters and assumptions, a project under any of the modeled scenarios for Lot 12 would require a subsidy—in addition to providing the land—to make it feasible. However, assuming no subsidy, the feasibility gap generally decreases as the number of units increases to spread the costs (particularly related to the replacement parking) and as the affordability requirement is decreased. This general trend is illustrated in Graph 1 below.

Graph 1. Feasibility Gap under Different Development Scenarios



Number of Units

As mentioned, the financial modeling considered development scenarios that included what could potentially be built under the current Downtown Precise Plan, as well as alternatives that include additional units.

Depending on the type of project, mix of uses, and number of parking spaces, staff estimates that the current Precise Plan could allow approximately 70 to 80 units on the site. Using the density bonus program with the Precise Plan, it is estimated that up to 115 to 120 units could be built on-site. A unit count greater than 115 to 120 units would

require a Precise Plan amendment. Note that the Council is scheduled to hold a Study Session at the end of the year regarding the Downtown Precise Plan to provide direction on which, if any, elements of the Precise Plan should be studied for possible amendments.

Affordable Housing

Regarding affordable housing, it is important to note the following:

- The 100 percent affordable housing scenario has the largest gap, but it could be the most feasible because the entire project could qualify for affordable housing tax credits and other potential subsidies.
- The 50 percent low/50 percent market-rate scenario has a lower overall gap, but the per-unit affordable housing subsidy would be higher because only a portion of the project (the low-income units) could qualify for affordable housing tax credits. However, it could qualify for other affordable housing subsidies.
- The 50 percent moderate/50 percent market-rate scenario has the smallest gap and might appear most feasible. However, the gap is still significant and might be the most challenging to fund because none of the project is eligible for tax credits, and there is limited or no public funding for moderate-income housing to close that gap. The City's Below-Market-Rate affordable housing program is currently being modified to add the moderate-income category for rental projects per Council direction, but it is currently limited to the low-income category. Once the modification is complete, in-lieu fees generated from the program could potentially be used to fund moderate-income rental housing. The City's General Fund could fund moderate-income housing, but that is subject to the budget process, competing priorities Citywide, and Council approval. External funding for moderate-income housing is typically limited and focused on ownership units. Not requiring the replacement parking and parking for the retail/community space could make the project feasible without subsidies, or improve feasibility if only some of the parking were required (see Parking discussion below).
- Any scenario that uses the density bonus would likely include 11 percent of the units as very low-income to maximize the bonus.

Parking

The cost of parking, particularly replacing the 160 public parking spaces that currently exist on Lot 12, comprises the greatest impact on project feasibility. Without the 160

replacement parking spaces, and excluding the additional 34 parking spaces assumed for the retail/community space, a development with 50 percent low/50 percent market-rate or with 50 percent moderate/50 percent market-rate could potentially be feasible with little or no subsidy, while a 100 percent affordable housing project could require a lower per-unit subsidy, assuming a development with 115 to 150 housing units.

Additionally, the study assumed relatively low maximum parking ratios of 0.5 space per unit for the affordable units and 0.75 space per unit for the market-rate units. These lower ratios were chosen in part due to the site's location in downtown, proximity to multiple transit options, benefits to project feasibility, lower parking demand typically associated with affordable housing, the goal of facilitating transit-/pedestrian-oriented development, and Council's support for lower parking ratios for this site.

Height Range and Parking

At the October 2017 Study Session, the City Council supported greater heights than what is currently allowed under the Precise Plan, which is three stories and 45', while being sensitive to the adjacent residential community. The financial modeling assumed the following:

- Range of 2 to 4 stories, 70 to 80 units, under the Base scenario.
- Range of 2 to 5 stories, 115 to 120 units, under the Base scenario with a density bonus.
- Range of 2 to 6 stories, up to 150 units, above the density bonus scenario.

The assumed range of heights for the scenarios is, in part, based on providing a certain amount of setbacks and open space to create space between the project and adjacent uses, as well as space within the project, and also assumes that the lowest heights are adjacent to the existing residential community and stepbacks to the greatest heights fronting Bryant Street. The exact design would be determined through the review process.

The development scenarios also assumed that the parking program includes residential parking, up to 34 spaces for the retail/community space, and the 160 replacement public parking spaces, all of which would be accommodated through above-grade, partially above-grade, and below-grade facilities. It is possible that the heights could be decreased by one story for each scenario if all of the parking were accommodated below grade. However, below-grade parking is the most expensive type of parking facility and would impact project cost and feasibility. Conversely, reducing the amount of

parking could reduce costs, enhance feasibility, and/or reduce the height range for the scenarios.

Summary of Key Feasibility Factors and Considerations/Tradeoffs

Table 1 below summarizes the key factors regarding project feasibility and considerations that might be associated with adjustments of those key factors. Modifying all of the key factors to improve project feasibility could result in a project where no or limited subsidies would be needed for a project to work, but the financial benefits would depend on the extent of the modifications and those modifications would come with certain tradeoffs. Finally, certain factors are interrelated with other factors, so that the impact from modifying one factor could be offset by modifying another factor.

Table 1. Key Feasibility Factors and Considerations/Tradeoffs

Key Factors	Project Alternatives and Impact	Considerations/Tradeoffs
<ul style="list-style-type: none"> • Number of units. 	<ul style="list-style-type: none"> • More units improves project feasibility significantly. 	<ul style="list-style-type: none"> • Need to factor in additional parking for the additional units.
<ul style="list-style-type: none"> • Increased heights. 	<ul style="list-style-type: none"> • Increased heights facilitate ability to add more units. 	<ul style="list-style-type: none"> • Need design that is responsive to adjacent residential community.
<ul style="list-style-type: none"> • Parking ratios for residential. 	<ul style="list-style-type: none"> • Relatively low parking ratios of 0.5 space/affordable unit and 0.75 space/market unit were assumed based on several factors, including Council support for lower parking ratios, benefit to project feasibility, location in downtown, proximity to transit options, and facilitating transit/pedestrian-oriented development. 	<ul style="list-style-type: none"> • A 100% affordable housing development would typically have the lowest expected parking demand. • The lower ratios could cause spillover into community. • Could require significant TDM, which could increase costs and offset savings from lower parking ratios.

<ul style="list-style-type: none"> • Replacing the public parking. 	<ul style="list-style-type: none"> • Reducing the number of required replacement parking could significantly improve project feasibility depending on number of spaces (not) replaced. 	<ul style="list-style-type: none"> • There is high demand for downtown public parking spaces, although demand at Lot 12 is relatively lower than at other downtown parking lots. • Cost of replacement parking might ultimately be paid for by City.
<ul style="list-style-type: none"> • Retail/community space. 	<ul style="list-style-type: none"> • No retail/community space could reduce costs and potentially allow for more residential. 	<ul style="list-style-type: none"> • Lack of nonresidential uses would limit ability to create sense of place and community.
<ul style="list-style-type: none"> • Parking for retail/community space. 	<ul style="list-style-type: none"> • Not requiring parking for the retail/community space improves project feasibility. 	<ul style="list-style-type: none"> • New nonresidential uses would generate parking demand • Could potentially use existing nearby public parking facilities such as at City Hall and the CVS parking structure, which has the lowest utilization rate of downtown parking facilities.
<ul style="list-style-type: none"> • Affordable housing requirements. 	<ul style="list-style-type: none"> • Lower affordable requirements could decrease feasibility gap, assuming no subsidies. 	<ul style="list-style-type: none"> • Although the 100% affordable housing scenario has the largest gap, it could be the most feasible when factoring in potential funding sources. • Although the 50% moderate/50% market rate has the smallest gap and might appear most feasible, the gap is still significant and there might be limited or no resources (other than unrestricted City funds or reduced replacement parking) to close that gap.

Table 2 below provides three scenarios to illustrate how adjustments to the various factors could impact feasibility. Table 2, Section A demonstrates how an increase in the number of units and a decrease in affordability requirements decreases the overall gap, but that the subsidy per affordable unit substantially increases (due to the loss of tax-credit funding and that there might not be resources to fund moderate-income housing). Table 2, Section B illustrates the positive impact on project feasibility if there

were no replacement parking nor parking for the retail/community space: the subsidy per unit for the 100 percent affordable scenario declines substantially, and the other scenarios might need little or no subsidy. Again, these are illustrative examples based on the high-level financial modeling and assumptions used. Actual submittals may have different conditions and would be reviewed based in part on financial strength, external funding sources, and the amount of City subsidy requested, if any.

Table 2. Feasibility Comparison between Scenarios

	100% Affordable	50% Affordable/ 50% Market	50% Moderate/ 50% Market
A. Gap/Subsidy Required with Replacement and Nonresidential Parking			
Units	- 75	- 120	- 150
Density	- 50 DUA	- 80 DUA	- 100 DUA
Height	- 2-4 stories	- 2-5 stories	- 2-6 stories
Nonresidential	- Retail	- Retail/community space	- Retail/community space
Parking	- 160 replacement parking - 38 residential - 17 nonresidential	- 160 replacement parking - 75 residential - 34 nonresidential	- 160 replacement parking - 94 residential - 34 nonresidential
Total gap	- \$19 million	- \$18 million	- \$14 million
Subsidy/ affordable unit	- \$250,000/affordable unit	- \$301,000/affordable unit	- \$191,000/moderate unit (if any)
B. Gap/Subsidy Required without Replacement and Nonresidential Parking			
Total gap	- \$6 million	- Potentially little/no gap	- No gap
Subsidy/ affordable unit	- \$75,000/affordable unit	- Potentially little/no subsidy needed	- No subsidy needed

Timing with Lots 4 and 8

Council has indicated a desire to not lose the parking on Lot 12 before the new parking in Lots 4 and 8 is complete. It is estimated that Lot 12 could begin construction in mid-2022. Currently, it is estimated that the Hope Street Lots development would be completed in early- to mid-2022. As a result, it is anticipated that the Hope Street Lots development and the dedicated 225 public parking spaces at Lots 4 and 8 will be

completed before Lot 12 begins construction, which would minimize the impact created by taking the 160 parking spaces at Lot 12 offline during construction.

RECOMMENDATION

Given previous Council direction and information provided by the financial modeling, the following key parameters for the marketing of Lot 12 are recommended:

- **Number of units:** Allow up to 115 to 120 units for Lot 12 using the density bonus program under the current Precise Plan.
- **Heights:** Provide flexibility for a range of building heights up to five stories, with the requirement for high-quality architecture that includes appropriate and responsive design/massing/interface with regard to adjacencies.
- **Affordable housing:** Provide flexibility for RFQ/RFP respondents: (1) to include between 50 percent and 100 percent of the units as affordable housing; and (2) to determine the various income levels/categories, up to moderate income (i.e., up to 120 percent area median income). Review of the RFP submittals would include the affordability mix, project pro forma, feasibility, and requested City subsidy amount (if applicable).
- **Mixed-use:** Include the requirement for some combination of retail and community space to facilitate creating place and a sense of community, while providing flexibility on the mix, type, and amount of retail/community space.

The recommendations above incorporate the key parameters identified earlier in this report and assume the need for subsidies for a project to be feasible.

Because parking represents a significant component of project feasibility, staff also seeks final direction on parking requirements, including maximum parking ratios, parking for nonresidential uses, and replacement parking.

Question 1: Does the Council support the recommended key parameters for the marketing of Lot 12 or does the Council have other direction regarding the key parameters for the marketing of Lot 12?

Question 2:

- a. Does the Council have input on the maximum parking ratios for Lot 12 (study assumed parking ratios of 0.5/affordable unit and 0.75/market-rate unit)?*

b. *Does the Council support not requiring additional parking spaces for the nonresidential uses, including the retail and community space?*

c. *Does the Council still wish to have all 160 parking spaces replaced?*

Question 3: Does the Council have any other direction on other parameters for the marketing of Lot 12?

NEXT STEPS

The anticipated next steps and timing for the marketing of Lot 12 is as follows:

- Q4 2018 – Complete preliminary assessments; Prepare RFQ/RFP.
- Q1 2019 – Issue RFQ; Close and score RFQ.
- Q2 2019 – Issue RFP; Close and score RFP.
- Q3 2019 – Recommendation of development team/proposal to Council.

PUBLIC NOTICING

Agenda posting, and courtesy notices were sent to addresses within a 500' radius of Lot 12, to the Old Mountain View Neighborhood Association, the Shoreline West Association of Neighborhoods, and the Central Business Association. The Downtown Committee will be informed of the progress at future public meetings.

WC/5/CAM
821-10-09-18SS

Attachment: 1. October 2017 Lot 12 Study Session Report