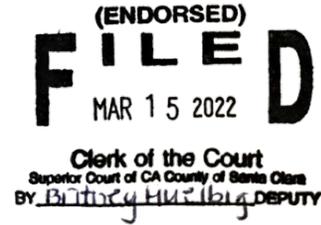


March 15, 2022

Honorable Theodore C. Zayner, Presiding Judge
Superior Court of California
County of Santa Clara
191 North First Street
San José, California 95113



Subject: City of Palo Alto Response to the Civil Grand Jury Report, Affordable Housing: A Tale of Two Cities

Honorable Presiding Judge Zayner,

The City of Palo Alto appreciates the Grand Jury's detailed work on this important issue. We agree with many of the Grand Jury's recommendations. We thank the Grand Jury for its time and consideration.

We believe that the strongest parts of the report were useful ideas for streamlining housing review and approval processes; and the section on financing dynamics for Affordable Housing.

1. Palo Alto Affordable Housing Supply

Palo Alto has long had one of the County's stronger records in supporting affordable housing and ranks second among cities in the County for affordable housing production as a percentage of total housing. Even compared to larger communities such as Sunnyvale and Mountain View, Palo Alto has many hundreds more affordable housing units (see Figure 1).



Figure 1 Below Market Rate Housing as a % of Total Housing Stock

2. “Net-of-Demand” Impacts of Developments on Affordable Housing.

The Grand Jury study focuses strictly on new production during the period from 2015 to 2019. During this period Palo Alto was among the first on the Peninsula to adopt policies to address housing demand, and not just supply. Palo Alto has also maintained and renovated existing affordable housing stock to maintain approximately 8% of its total housing inventory as affordable housing.

A fundamental issue jurisdictions are struggling with is that a given land-use policy or project can simultaneously influence both the supply and demand for affordable housing. Whether cities consider both the demand and supply impacts, or just the supply in isolation, makes an enormous difference in how to evaluate a project’s housing availability and affordability impacts.

When demand is considered (Appendix 1), during the 2015-19 period neither Palo Alto nor Mountain View effectively increased their affordable housing. Instead, both cities saw declines in it with Mountain View experiencing more than five times the decline as Palo Alto (Figure 2).

City	New AH Supply (Supply-Only)	2015-2019 New Jobs	New AH Demand	New AH Supply (Net-of-Demand)
Palo Alto	166	4,174	671	(505)
Mountain View	430	20,748	3,336	(2,906)
Total 2 Cities	596	24,922	4,007	(3,411)
Sources: Grand Jury Report, ACS 5-yr data, 0.67/24% model Appendix 1)				

Figure 2 Affordable Housing Supply vs “Net-of-Demand” Affordable Housing Supply

“Net-of-demand,” the two cities’ total production was not a 596-unit gain, but a 3,411-unit loss. Although the RHNA process counts only the gain, the loss leaves several thousand actual lower-income residents with no nearby place to live.

This issue is of particular relevance to mixed-use plans, in which housing supply and demand are created directly together. Palo Alto believes that in the mid-Peninsula, the economics of private developer investment now make for-profit mixed-use projects with positive “net-of-demand” affordable housing nearly impossible without subsidies. For example, one North Ventura Coordinated Area Plan (NVCAP) property owner has proposed to build 508 new housing units, including 76 affordable (<120% AMI), in exchange for approval of 200,000 square feet of new office space (Appendix 2). Per the “Adjusted KM 2016” demand model in Appendix 1, the commercial component would create a new affordable housing need of 232 units — three times the project’s supply. Whether approving this project counts as an increase of 76 affordable units or a loss of 156 depends on whether one considers demand.

Such projects have the paradoxical effect of apparently boosting RHNA performance, while actually reducing net availability of affordable housing; thereby increasing low-income displacement (Appendix 3). We view this as a structural problem of the current RHNA process. As a result of this dynamic, we believe cities with expensive land and high jobs-housing ratios, like our own, should be very cautious to use the Mixed-Use approach. This issue will reappear multiple times in our response to the Grand Jury recommendations.

FINDINGS AND RECOMMENDATIONS

Finding 1

The Civil Grand Jury commends the City of Mountain View for prioritizing and exhibiting strong, visible support for affordable housing and progress towards Regional Housing Needs Allocation targets.

City of Palo Alto Response: NA

Finding 2

The Civil Grand Jury commends the City of Mountain View for creating a multi-tiered communication plan that both communicates the value of affordable housing to all stakeholders and addresses their issues. This has engendered strong community support for affordable housing leading to many successful projects.

City of Palo Alto Response: NA

Finding 3

The Palo Alto City Council has not taken a leadership role in developing community support for affordable housing planning and projects.

City of Palo Alto Response: Partially Agree / Partially Disagree

The City disagrees that the Council has not taken a leadership role in developing support for affordable housing planning initiatives and projects once they are identified. Specifically, each of the last two years, the City Council adopted “Housing for Social and Economic Balance” as one of its four city “Priorities”. Councilmembers actively participate in neighborhood meetings and the City actively championed the Buena Vista rescue (\$15M) project to preserve Buena Vista. The City financially supported the Wilton Court project (\$22M), and the 231 Grant Affordable Teacher-Housing project (\$3M). Councilmembers have also advocated for a land-use strategy that balances new jobs and new housing creation, and zoning actions (Planned Home Zoning (PHZ), Housing Incentive Program (HIP) and Affordable Housing Overlay that provides the City’s highest zoning and approval streamlining incentives for Affordable Housing projects. Recently, the Council initiated an RFP for piloting housing on city owned parking lots in our downtowns, with a preference for Affordable Housing.

The City agrees that there can be more Council advocacy to initiate and solicit affordable housing projects.

Recommendation 3

The City of Palo Alto should research how other cities foster support for affordable housing and develop a communication plan focused on increasing community support for affordable housing. The plan should be developed and made available to the public by June 30, 2022.

City of Palo Alto Response: The recommendation has not yet been implemented but will be implemented before the end of the 2022 calendar year. Palo Alto will research other jurisdictions within the County and report back to the City Council with a recommended communication

strategy intended to increase community support for affordable housing. Part of this communication strategy is anticipated to include actively surveying residents as part of an upcoming business tax ballot initiative; preliminary results suggest the community is supportive of a portion of the business tax revenue to be used for affordable housing. Moreover, the City's website will be updated to include consolidated affordable housing policies and access to other relevant information and documents.

Finding 4

Palo Alto City council members do not play a strong enough leadership role in personally engaging in community education and discussion to aid in resident acceptance of affordable housing.

City of Palo Alto Response: Disagree.

The City Council disagrees with this finding in both that the Council does play an active role in engaging the community on affordable housing policies and projects and our data shows there is already widespread community support and acceptance of below market rate housing. Recent projects, such as the 100% affordable housing project at Wilton Court and 321 Grant Affordable Teacher Housing Project have been supported by both housing advocates and neighborhood groups.

In addition to recent polling for our upcoming business tax ballot measure, the annual citizen survey is a statistically representative survey of residences and indicates widespread support of affordable housing. Recent solicitation of council priorities also indicates support for a focus on below-market rate housing.

For several years, community pushback to development in Palo Alto has focused mainly on additional commercial office projects, and the community has supported office development restrictions, including in mixed-use developments where commercial-driven housing demand exceeds housing supply. This tension, not resistance to affordable housing, has been and continues to be one of the major constraints in the City's NVCAP planning.

Recommendation 4

The City of Palo Alto should conduct a "lessons learned" analysis from the 4-year unsuccessful North Ventura Coordinated Area Plan planning process. The City of Palo Alto should create an improved process to bring residents to a shared understanding of the needs and complexities of affordable housing development. This process should include direct involvement of Palo Alto City elected leaders in community outreach. These recommendations should be completed by June 30, 2022.

City of Palo Alto Response: This recommendation will be implemented upon completion of the NVCAP process; however, the recommended timeline of June 2022 is premature. The NVCAP process is not complete, and it is inaccurate to call the planning process unsuccessful. Specifically, Council has recently provided direction (December 2021) on the preferred concept plan that will become the draft plan reviewed for CEQA compliance and brought back to Council for final adoption. Meanwhile, negotiations with property owners are continuing.

Moreover, while affordable housing is a component of this planning initiative it is not the only project component of community interest; others relate to improved circulation, enhanced open space opportunities, balanced growth, and a focus on sustainable development. The NVCAP

process cannot be viewed exclusively from the lens of affordable housing. At the appropriate time the City will conduct a best-practice analysis to determine lessons learned regarding the totality of the project.

Finding 5

The Housing Element Plan and land-use changes are foundational to supporting affordable housing, but they are not enough. Affordable housing also needs cities to create area-specific land-use and zoning plans like the City of Mountain View's Precise Plans. Mountain View has also prioritized affordable housing development by using its planning processes to specifically identify a set of projects and actions within a concrete time frame. The City of Mountain View is to be commended for both its use of Precise Plans and its short-term City Strategic Planning process.

City of Palo Alto Response: NA

Finding 6

The City of Palo Alto's multiplicity of planning policies and documents creates lengthy processes and can lead to frustration for all parties, including neighborhoods as well as developers. The City of Palo Alto does not have a comprehensive set of plans organized by area or neighborhood that include all zoning elements and regulations that could support AH. Current plans do not clearly and concisely identify where affordable housing could be built with design and density acceptable to the City of Palo Alto and the community.

City of Palo Alto Response: Partially Agree / Partially Disagree.

The City agrees that it does have a multiplicity of planning processes, which may benefit from further rationalization.

We are not persuaded, however, that specific plans are a primary planning tool to achieve more below market rate housing. We believe the primary challenges to affordable housing are economic, and the same economics apply equally in both the presence and absence of specific plans. Palo Alto has successfully done area-specific plans in the past, such as its 1999-2004 South of Forest Avenue (SOFA) plan.

Among the two main mechanisms for financing below market rate housing, the Grand Jury points out that specific area plans can be particularly helpful in leveraging mixed-use development. However as previously noted, Palo Alto believes the economics of affordable housing in the Peninsula preclude most practical use of mixed-use development as an affordable housing tool, once "net-of-demand" housing is considered. For this reason, we do not see this as a valid, primary approach. The other primary funding mechanism, 100% affordable housing projects using public funds, does not derive as much benefit from specific plans.

Recommendation 6a

The City of Palo Alto should identify, by March 31, 2022, three or four areas where significant affordable housing can be built.

City of Palo Alto Response: This recommendation has been implemented. Affordable housing is permissible throughout the city where multifamily and commercial development is allowed. Under its Housing Incentive Plan (HIP), the City has also identified three specific large zoning

districts where affordable housing developers can take advantage of increased development incentives that convey more benefits than can be achieved through state density bonus law. For 100% affordable housing projects, these three areas include the CS, CN and CC-2 zoned properties along El Camino Real, the CC-2 zoned properties around California Avenue and CD-C zoned properties Downtown (University Avenue). These projects are also allowed streamlined approval processes. Additionally, the City is currently updating its housing site inventory, programs and policies for our Housing Element which is anticipated to identify further opportunities in various areas of the City, including along Fabian Way and San Antonio Road.

Recommendation 6b

The City of Palo Alto should agree, by June 30, 2022, to task its planners to create realistic plans for each identified area in consultation with residents and developers.

City of Palo Alto Response: This recommendation will not be implemented because it is not warranted; as described above, we believe specific plans are not required for affordable housing production, especially for non-profit and publicly-funded projects.

We believe the primary challenges to affordable housing are economic, and the same economics apply equally in both the presence and absence of specific plans. Further, the City has a land-use strategy that balances new jobs and new housing creation, and zoning actions (Planned Home Zoning, Housing Incentive Program, Affordable Housing overlay) that specifically target affordable housing without encouraging large, new commercial development. As noted in the City's response to Recommendation 9b below, the City will also examine opportunities to further streamline its Affordable Housing overlay process.

Finding 7

Mountain View Planning Division's summary memo to the Mountain View City Council provides a clear, concise update on progress toward Housing Element goals. The City of Mountain View is commended for the clarity and conciseness of its Annual Housing Element Progress Update to the Mountain View City Council. However, the Annual Housing Element Progress Updates with cover memos to the Mountain View City Council cannot be found easily by the public on the city's website.

City of Palo Alto Response: NA

Recommendation 7

The City of Mountain View should publish its *Annual Housing Element Updates* and the summaries (in an appropriate form) on the city's website by June 30, 2022.

City of Palo Alto Response: NA

Finding 8

Combining the City of Palo Alto's Housing Element Annual Update and the Comprehensive Plan Update with one cover memo does not communicate city progress in either area clearly.

City of Palo Alto Response: Partially Agree / Partially Disagree

Combining reports places all relevant information in one place and provides clarity to residents and decision makers, as the Housing Element is a component of the General Plan. The reports are consistent with state reporting requirements. However, it is agreed that the reports can be made more readable and summarize pertinent information to support broader public understanding of the City's progress.

Recommendation 8

The City of Palo Alto should publish the latest two years of its Housing Element Annual Updates and cover memos summarizing annual progress to the city's website by June 30, 2022. To better communicate to the public, the Housing Element Annual Updates and the Comprehensive Plan Updates should be separated.

City of Palo Alto Response: The recommendation has been implemented with respect publishing the latest two years of the City's Housing Element Annual Update on the City's website. This information is now available online: <https://www.cityofpaloalto.org/Departments/Planning-Development-Services/Long-Range-Planning/Housing-Policies-and-Programs/Housing-Element-2015-2023>.

City of Palo Alto Response: The recommendation will not be implemented because it is not warranted with respect to separating out the comprehensive plan and housing element annual reports. However, for the 2023 reporting period, staff will explore opportunities to improve the readability and format to achieve the report recommendation.

Finding 9

The length of time it takes developers to get their plans approved is significantly higher in the City of Palo Alto compared to the City of Mountain View. This discourages developers from proposing residential development in Palo Alto.

City of Palo Alto Response: Partially Agree / Partially Disagree

We are not familiar with other cities' processes or data on time-to-process. The report cites some anecdotal examples. For code compliant projects, the City's review processing times are not anticipated to be significantly greater than other jurisdictions and typically only require review by the City's Architectural Review Board. There are other applications, including some 100% affordable housing projects or Planned Home Zoning applications that deviate from local zoning standards and require City Council action. While time is certainly a consideration in land use development there are other factors that may entice or discourage a developer from proposing an application, including factors beyond the City's control.

Recommendation 9a

Once the guidelines for developments are clearly defined in area plans, the Palo Alto City Council preliminary review could be eliminated. The City of Palo Alto should establish a schedule by June 30, 2022, for defining and accepting the area plans identified in Recommendation 6a.

City of Palo Alto Response: The recommendation will not be implemented because it is not warranted, as discussed under Finding 6. The City is not persuaded that area plans are inherently a solution to providing more affordable housing. Rather, the City believes the primary challenges

to affordable housing are economic, and the same economics apply equally in both the presence and absence of specific plans.

The preliminary review process referenced in the recommendation is voluntary and optional. It is not a requirement for code compliant projects; rather, it is to reduce a developer's risk of fully developing a non code-compliant project, without some confidence the City Council will view it favorably. We agree the review is not needed for code-compliant projects and in any area-specific plans, should we do them in the future.

Recommendation 9b

The City of Palo Alto should explore combining the Planning and Transportation Commission and Architectural Review Board reviews into a single review, as is done in Mountain View. Palo Alto City staff should also consult with Mountain View planners to investigate ways to further streamline the approval process. Recommendations for changes to the planning review process should be proposed by June 30, 2022.

City of Palo Alto Response: The recommendation requires further analysis. The vast majority of the applications processed in the City do not require review by both the Architectural Review Board and the Planning and Transportation Commission. This is because these bodies have different statutory authority and so by dividing their work, greater efficiency is created and the workload divided among two volunteer bodies.

Some projects seeking an affordable housing overlay approval, which conveys greater height and density than can be achieved with the City's base zoning requirements, do, however, require review by the City Council, Planning and Transportation Commission, and Architectural Review Board. Prior to June 16, 2022, the Planning and Development Services department will present an option to the City Council to streamline the review of 100% affordable housing projects such that only Architectural Review Board review is required, unless appealed to the City Council. In developing its recommendations, staff will consult with Mountain View planners to better understand its approach for streamlining affordable housing projects.

Finding 10

Developers (both for-profit and non-profit) find it very useful to work with a designated individual who is responsible for the affordable housing target and coordinates all activities across developers, funding sources, city council, planning departments, and other stakeholders to enable progress on projects.

City of Palo Alto Response: Agree

The City agrees a designated individual coordinating all affordable housing-related activities would be helpful.

Recommendation 10a

The City of Palo Alto should identify an Affordable Housing Manager who can be responsible for the affordable housing target and ensure coordination among stakeholders by June 30, 2022. This role should be the primary focus of this individual and should have the support of Palo Alto's City Council.

City of Palo Alto Response: The recommendation requires further analysis. The City sees value in having a single point of contact for affordable housing projects to the extent feasible. Prior to June 16, 2022, as part of the City's annual budget process, the City Council will consider whether there are sufficient funds to staff such a position or other personnel adjustments to provide dedicated attention to affordable housing projects.

Recommendation 10b

The City of Mountain View should identify an Affordable Housing Manager who can be responsible for the affordable housing target and ensure coordination among stakeholders by June 30, 2022. This role should be the primary focus of this individual and should have the support of Mountain View's City Council.

City of Palo Alto Response: NA

Finding 11

In the past decade, the City of Mountain View has created substantial affordable housing funding derived both from City revenues (fees, charges to developers, etc.) and from external funding. However, the City of Mountain View's fund is diminishing and needs to be built up.

City of Palo Alto Response: NA

Recommendation 11

The City of Mountain View should develop a specific affordable housing funding plan to cover its needs for the next five years by July 30, 2022.

City of Palo Alto Response: NA

Finding 12

The City of Palo Alto does not have a multi-faceted affordable housing funding strategy (including creating a fund for affordable housing as well as proactively leveraging all potential external funding sources) that would encourage it to build more below market housing.

City of Palo Alto Response: Disagree

We think the Grand Jury was simply mistaken here; the City has had such an Affordable Housing Fund for many years. From 2015-2019 it sourced approximately \$40 million for affordable housing efforts, not including associated infrastructure. The fund currently has about \$6 million in it and is anticipated to contribute to the transitional-housing project the Council approved in 2021. The City recently increased its commercial housing impact fees and as noted below, is exploring the possibility of a business tax to support in part, affordable housing projects. Moreover, the City Council recently directed its Finance Committee to further explore other affordable housing funding strategies.

Recommendation 12a

The City of Palo Alto should create a plan with specific goals and timelines by July 30, 2022, to build up the affordable housing fund considering tools such as business tax, document tax, bond measure, and property tax

City of Palo Alto Response: This recommendation has been implemented and is scheduled to receive further refinement later this year with a possible business tax ballot initiative. The City has had an Affordable Housing Fund for many years, historically funded primarily through impact and in-lieu fees. Palo Alto has led on inclusionary housing requirements for decades.

In keeping with its view that new commercial development should pay for its associated housing needs, in 2021, the City raised its commercial linkage fee for Affordable Housing to the highest in the Bay Area, \$68.50 per square foot, equal to the County's rate under its "full mitigation" policy as applied to Stanford University.

We are, however, seeking additional new tools to increase the size of our Affordable Housing Fund. One potential funding tool is a business tax, currently in evaluation for the November 2022 ballot, including a spending advisory to contribute to the Affordable Housing Fund. Early polling suggests public sentiment appears to favor such a tax.

Recommendation 12b

The City of Palo Alto should create a Memorandum of Understanding with Santa Clara County by July 30, 2022, to establish goals and actions to leverage Measure A bond funding and advance identified affordable housing projects.

City of Palo Alto Response: This recommendation requires further analysis as City staff reach out to the County to assess its willingness to enter into an MOU with Palo Alto; staff will begin these discussions by June 16, 2022.

Measure A funds are not blanket-allocated to local jurisdictions; rather, they are applied to eligible individual affordable housing projects. When eligible projects are proposed for Palo Alto, the City and the developer engage the County regarding the allocation of funds to those projects. Various City representatives have over time been in direct or indirect contact with the County to explore funding opportunities for a variety of projects but no Measure A funds have yet been disbursed for a Palo Alto project at the time of this response.

Finding 13

One hundred percent affordable housing projects are more reliant on scarce city funds and other resources compared to mixed-use projects that combine housing with commercial space. Having a city-wide portfolio of both 100% affordable housing projects and mixed-use projects will yield the greatest number of units and best utilize available funds.

City of Palo Alto Response: Partially Agree / Partially Disagree

In general, Palo Alto will support as many 100% affordable projects as can be funded.

In addition, Palo Alto's policy is to consider both supply and demand for affordable housing. The City's PHZ zoning incentivizes mixed-use projects but explicitly requires that housing supply exceed job-linked housing demand in those projects. As discussed previously, and also quantitatively in Appendix 3, we do not believe conventional mixed commercial-residential development generally represents a sustainable approach to fund affordable housing in high jobs-housing ratio cities like Palo Alto.

Historically, most agencies – including the Grand Jury – measured only the supply produced by such plans and projects, and not any associated demand. We believe that mixed-use projects that create more housing demand than supply exacerbate the need for affordable housing rather than reduce that need; and that in high jobs-housing-ratio regions of the Bay Area, this approach is no longer sustainable, and “net-of-demand” is now a better metric.

Recommendation 13

The City of Palo Alto should include both mixed-use and 100% affordable funding opportunities in its affordable housing plan referred to in Recommendation 12a by July 30, 2022.

City of Palo Alto Response: This recommendation has been and is being implemented. The City’s housing work plan and policies in the new housing element will focus on ensuring projects are net-of-demand housing-positive.

In practice, we anticipate that all 100% affordable projects, but few traditional privately-funded mixed-use projects, will meet this criterion.

Finding 14

Relying on commercial development to fund affordable housing has the unintended consequence of increasing the need for affordable housing.

City of Palo Alto Response: Agree

Using ACS 5-year jobs data and the Adjusted Keyser-Marston model (Appendix 1), Palo Alto and Mountain View together created demand for 4,000 affordable housing units from 2015-2019 --- 3,400 more than the 596 units the two cities actually permitted.

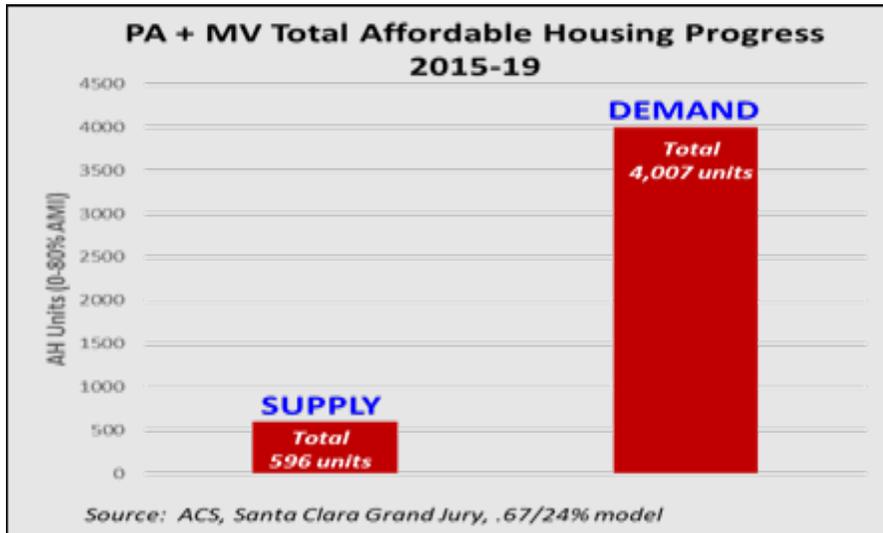


Figure 3: 2015-19 - New Affordable Housing Supply vs New Affordable Housing Demand

Once net-of-demand is measured, this increased 3,400-unit affordable-housing shortage maps to over 8,000 newly-displaced low-income individuals with no identified place to live (assuming ~2.5 persons per household). The “unintended” consequence described by Finding 14 has concrete

human ones. In order to ensure sensible policy, agencies should measure “net-of-demand” affordable housing changes, not simply affordable housing numbers in isolation.

In addition, mixed-use projects that provide more new jobs than housing are also forms of commercial development to fund affordable housing that have the unintended consequences of increasing the need for affordable housing.

Recommendation 14

By July 30, 2022, both the City of Palo Alto and the City of Mountain View should require a Housing Impact Study in the approval process for new commercial development, that informs decision-makers about how the proposed project affects the job-to-housing ratio.

City of Palo Alto Response: This recommendation has been and is being implemented as it relates to the City’s PHZ application process. PHZ projects are required to provide more housing units than needed to offset any net new job generation for commercial land uses. As previously stated, the City limits commercial development through its annual office cap in the zoning code and through land use policies in the comprehensive plan. A Housing Impact Study for other by-right commercial development that is subject to ministerial review, objective standards or design review may be informative to illustrate how a project may be improving or creating more of a jobs/housing imbalance but without actionable policies like the ones employed by Palo Alto, a Housing Impact Study offers little utility and would not likely enable decision-makers to approve or disapprove most projects, unless structured similarly to the PHZ process in Palo Alto.

Numerous nexus and other studies have already established the linkages from commercial development to housing demand, including affordable housing. Additional study is always welcome, but the top factor now is probably agencies’ more consistent adoption of existing Net-of-Demand metrics into land-use policies.

CONCLUSION

The City of Palo Alto appreciates the Grand Jury’s leadership on this important issue. As noted, we agree with several of the Grand Jury’s findings and recommendations and look forward to implementing these items in the coming weeks and months.

As noted, Palo Alto has 8% of its total housing stock as affordable housing. We are proud to have the second highest affordable housing rate of any city in the county based on the percent of total housing stock; and we are addressing the office demand side, which is critical to achieving true progress in meeting the need for affordable housing.

In closing, the City will continue to make progress on this important priority. The City Council recently adopted housing for social and economic balance as a 2022 Council priority and will be adopting a new Housing Element to help guide future affordable housing production. Our Affordable Housing Fund has been an important tool in investing in affordable housing in Palo Alto, and we continue to pursue additional revenue sources to increase this fund as we look to invest in future affordable housing projects.

On behalf of the Palo Alto City Council, thank you for considering our responses.

Sincerely,

A handwritten signature in black ink that reads "Pat Burt". The signature is written in a cursive, flowing style.

Pat Burt, Mayor
City of Palo Alto
250 Hamilton Avenue, 7th Floor
Palo Alto, CA 94301

Copy: Palo Alto City Council
Lesley Milton, City Clerk
Ed Shikada, City Manager
Jonathan Lait, Planning & Development Services Director

APPENDICES

1. Affordable-Housing Demand Models
2. Mixed-Use Affordable Housing Proposal in NVCAP
3. RHNA, Recommendation 13, and Mixed-Use Development Economics
4. Housing Supply and Demand

Appendix 1 - AFFORDABLE HOUSING DEMAND MODELS

Housing costs and availability are influenced by changes in both Supply and Demand. Since land-use policies and also individual actions can influence both factors at once, an understanding of linkages is important for planning.

Various studies have analyzed these linkages. One is a 2016 Keyser-Marston Nexus Study commissioned by the Santa Clara County and used during the County’s “GUP” discussions with Stanford University.¹

The core principle is that job growth attracts new employees to the region, who need housing. A range of affordability levels is needed, because even high-wage office jobs in fields such as software engineering and biotechnology indirectly create housing demand for workers in associated service, transportation, education and other roles.

A. Summary of the 2016 Keyser-Marston Nexus Study for Santa Clara County (Commercial Linkage)

The 2016 Keyser-Marston study analyzes this linkage by looking at factors such as prevailing industry and income profiles and proportions, the housing demand created by different job categories, and the worker density in both office and residential space. KM 2016 makes the following assumptions:

- 300 square feet of office space per employee
- 1.72 workers per household – KM cites this as the Countywide average
- 20% of new jobs sourced by what KM call “declining industry” workers: existing residents who already have housing here, and whose old job is not backfilled by a new employee.

From this, KM calculates that each 100,000 sf of office space creates new households as follows:

- | | | |
|--------------------------------------|-----------------|----------------|
| • Extremely Low Income (0-30% AMI) | 2.6 households | 1.7% of total |
| • Very Low Income (30-50% AMI) | 12.0 households | 7.7% of total |
| • Low Income (50-80% AMI) | 22.0 households | 14.2% of total |
| • Moderate Income (80-120% AMI) | 30.7 households | 19.8% of total |
| • Above Moderate Income (> 120% AMI) | 88.0 households | 56.6% of total |

Per this model, each 1,000 sf of new office space adds 3.3 new jobs, and a demand for 1.6 new households; of which 24% must be 0-80% AMI, and 43% must be 0-120% AMI. Restated, each new office job creates a demand for .47 new households, with the same percentages for 0-80% and 0-120% AMI respectively. In table form:

Housing Demand Created By	Keyser-Marston 2016 – County Average		
	Housing Units	ELI/VLI/LI %	ELI/VLI/LI/MI %
1000 sf Office Space	1.6	24%	43%
1 New Job	0.47	24%	43%

B. Suggested Adjustments for North County and Overcrowding

The KM 2016 model is a countywide model, and the factors that go into it likely vary between the South, North and West County regions.

- First, employee density in the tech-heavy North County, where office rents are considerably higher than the County average, in 2022 is likely higher than 3.3 employees per 1,000 sf.
- Second, the cited (2016) County average of 1.72 workers per housing unit may not be best for this calculation. Others including California HCD² and Working Partnerships USA / Beacon Economics³ argue that current Bay Area housing is “overcrowded” and lower densities should be used for planning. WPUSA/Beacon recommend a planning target of 1.35 workers per housing unit³.
- Finally, an estimate that 20% of new jobs are still being taken by workers leaving declining industries feels high at this time in Silicon Valley and especially in the North County.

An adjustment to the base KM 2016 analysis, using 4.0 employees per 1,000 sf office space, 1.35 workers per household, and 10% of new jobs taken by “declining industry” workers, is shown below as “Adjusted KM 2016.”

Additionally, the City of Mountain View has developed a Jobs-Housing Linkage Program as part of its 2019 East Whisman Precise Plan. The Mountain View standard prescribes 3.0 housing units per 1,000 sf office space, at a 50% inclusion rate (ELI/VLI/LI/MI)⁴.

These three models are summarized below:

Housing Demand Created By	Keyser-Marston 2016 – County Average			Adjusted KM 2016 – North County 2022			Mt View 2019 Jobs-Housing Linkage Program		
	Housing Units	ELI/VLI/LI %	ELI/VLI/LI/MI %	Housing Units	ELI/VLI/LI %	ELI/VLI/LI/MI %	Housing Units	ELI/VLI/LI %	ELI/VLI/LI/MI %
1000 sf Office Space	1.6	24%	43%	2.7	24%	43%	3.0	--	50%
1 New Job	0.47	24%	43%	0.67	24%	43%	--	--	--

Conclusion

A reasonable range estimate for new housing demand created by office-space development and new jobs in the North County would be:

- Each 1,000 sf office space creates a demand for 1.6-3.0 housing units, at a 24% inclusion rate (ELI/VLI/LI) or a 43% inclusion rate (ELI/VLI/LI/MI)
- Each new job creates a demand for .47-.67 new housing units, at a 24% inclusion rate (ELI/VLI/LI) or a 43% inclusion rate (ELI/VLI/LI/MI)

For Palo Alto, the higher end of these ranges, closer to Mountain View’s, is likely most accurate.

Notes

1. Non-Residential Nexus Analysis, Keyser-Marston Associates, December 2016
<https://osh.sccgov.org/sites/g/files/exjcpb671/files/County%20of%20Santa%20Clara%20Affordable%20Housing%20Nexus%20Studies%20Public%20Review%20Draft.%2004-04-2018.pdf>
Appendix B (Commercial Linkage Analysis) p12
2. HCD Regional Housing Needs Determination: ABAG June 2021 - December 2030, California Department of Housing and Community Development (HCD)
[https://www.hcd.ca.gov/community-development/housing-element/docs/abagrha-final060920\(r\).pdf](https://www.hcd.ca.gov/community-development/housing-element/docs/abagrha-final060920(r).pdf)
3. The Google Rent Hike, Working Partnerships USA, June 2019
<https://www.wpusa.org/files/reports/GoogleRentHike.pdf>.
4. Administrative Guidelines for Jobs-Housing Linkage Program, City of Mountain View, 2019
<https://www.mountainview.gov/civicax/filebank/blobdload.aspx?BlobID=33089>

Eric Filseth, February 2022

Appendix 2 – MIXED-USE AFFORDABLE HOUSING PROPOSAL in NVCAP

Tom Gilman tgilman@des-ae.com

Tue 9/14/2021 4:34 PM

To: Council, City city.council@cityofpaloalto.org

Cc: Lait, Jonathan <Jonathan.Lait@CityofPaloAlto.org>; Tanner, Rachael <Rachael.Tanner@CityofPaloAlto.org>; Campbell, Clare <clare.campbell@cityofpaloalto.org>

To the Palo Alto City Council-

In regards to the NVCAP process, the Planning staff has requested from the Jay Paul Company, a response to the concepts presented at the June 2021 City Council meeting. Based on the Planning documents from that meeting and in discussions with the Staff, the owner needed to take a more detailed look into the numbers to evaluate the potential redevelopment for the 395 Page Mill site.

This has included reviewing several existing conditions:

- Rapidly increasing construction costs
- The considerable investment that he has made to the existing building
- Potential buy-out of the existing tenant's lease and lease extension possibility
- Major construction cost of building 2 1/2 levels of underground parking

Based on the considerable financial investment that a redevelopment would entail, the Jay Paul Company would be prepared to go along with a redevelopment of the site based on the following:

- Build 508 new living units in a multifamily project with a 15% affordability (BMR) ratio, built in 6-story and 8-story buildings
- Build an additional 200k sf of tech-office space for a total office area of 420K sf on the site, built in a new 8-story tech-office building
- Include a new 2.3 acre public park, plus significant usable green space setbacks totaling an additional 1.3 acres. On average the existing setbacks are 25', which would be increased to 30'-40'.
- 95% of the parking would be housed in a new 2 1/2 level underground parking garage, opening up a significant portion of the site as green space.
 - The 9.8 acre site would have almost 60% open space, (public + private) compared to the current 25%
- The multi-family residential buildings would be highly sustainable, built to CalGreen standards.
- The tech-office buildings would be built to highly sustainable green levels, including LEED Platinum, and Fitwell accredited
- Designing this office building as a Mass-Timber building. This will help ensure that the project is a highly sustainable project with the goal of significant Carbon reduction.
- The Jay Paul Company has an on-going relationship with Magical Bridge Foundation, with whom they have worked in Palo Alto and other communities. They will work with them to consider Magical Bridge play spaces in the proposed Park area.

The owner believes that this location is ideal for this transit-oriented development with Caltrain and multiple bus lines within easy walking distance.

Without these levels of additional office space redevelopment, the owner is not motivated to redevelop the site, given the highly successful development with the current tenancy.

The owner looks forward to helping the City make this NVCAP effort a reality and is available for further conversation.

Thank you,
Tom Gilman, AIA
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Visual Communications | LEED Coordination**

Appendix 3 – RHNA, RECOMMENDATION 13, and MIXED-USE DEVELOPMENT ECONOMICS

How much office space would it take for Palo Alto to have reached 33% of its RHNA Cycle 5 VLI/LI target by 2019 – parity with Mountain View – using the Mixed-Use approach?

Per the Grand Jury report, by the end of 2019:

- Palo Alto had reached 15% of its VLI/LI RHNA goals (166 units against a target of 1,123)
- Mountain View had reached 33% of its VLI/LI RHNA goal (430 units against a target of 1,306)

A reasonable question is: suppose Palo Alto wished to reach at least 33% of its RHNA Cycle 5 target using Mixed-Use Development, as indicated by Recommendation 13. How much new office space would have been required?

To achieve 33%, an additional 206 VLI/LI units would be needed. The Adjusted KM 2016 model suggests that $206 * 2.7 * 1,000 = 550,000$ square feet of new office space would have been adequate; however, the Demand Model does not guarantee this rate would also be economically feasible for a developer.

The Jay Paul NVCAP Page Mill proposal (Appendix 2) provides a recent “economic feasibility” Mixed-Use data point. The proposal suggests that 76 VLI/LI units can be financed by 200,000 sf of office space, or 2,630 sf office per unit.

However, the Page Mill proposal includes MI (81-120% AMI) units; whereas the Grand Jury report considers only VLI/LI (0-80% AMI) units. Using the KM 2016 model, we can adjust the 2,630 sf metric by (43%/24%) to suggest a rate of 4,715 sf office per VLI/LI unit is currently economically viable in Palo Alto.

This suggests that in practice, producing the additional 206 VLI/LI units to reach 33%-of-RHNA using Mixed-Use as in Recommendation 13, could have been achieved by Palo Alto approving roughly 970,000 sf of new office space; creating space for 3,885 new jobs.

To reach not 33% but 100% of Palo Alto’s 2015-2023 RHNA VLI/LI target this way would require roughly 4.5 million square feet of new office space, and 18,000 new jobs.

Note these are “Supply Only” numbers; “Net-of-Demand” numbers for this much office space would suggest actual net losses in the hundreds of units of city VLI/LI housing availability, with corresponding displacement of hundreds or more lower-income residents. This conflict between RHNA performance and low-income displacement, in context of private commercial development as a funding tool for affordable housing, represents a structural problem with the RHNA process as currently measured.

Palo Alto Criteria	Net New VLI/LI Supply (units)	Economically Feasible sf Office per VLI/LI unit	New Office Space Needed (sf)	Implied New Jobs	VLI/LI Demand per 1,000 sf Office	Net New VLI/LI Demand (units)	Net-of-Demand VLI/LI Supply (units)
Additional VLI/LI units to reach 33% of Palo Alto RHNA Target	206	4,715	971,290	3,885	0.65	629	(423)
Additional VLI/LI units to reach 100% of Palo Alto RHNA Target	957	4,715	4,512,255	18,049	0.65	2,924	(1,967)

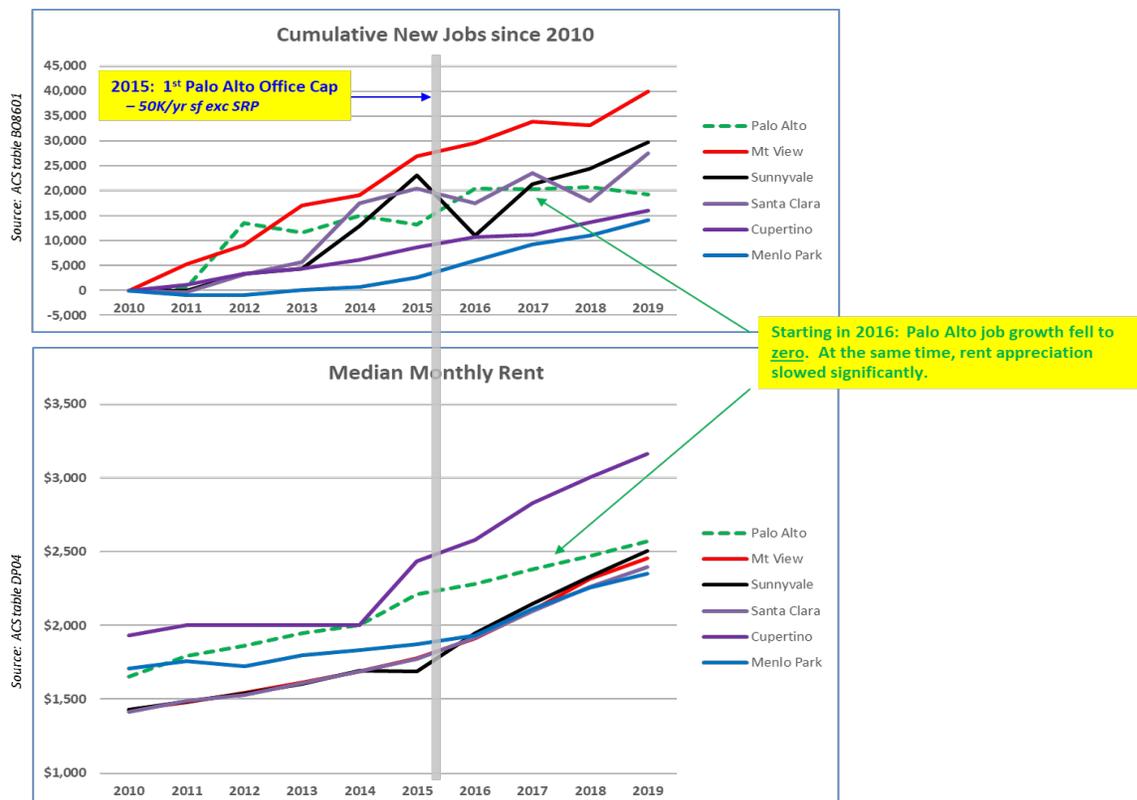
Appendix 4 – MANAGING HOUSING SUPPLY AND DEMAND

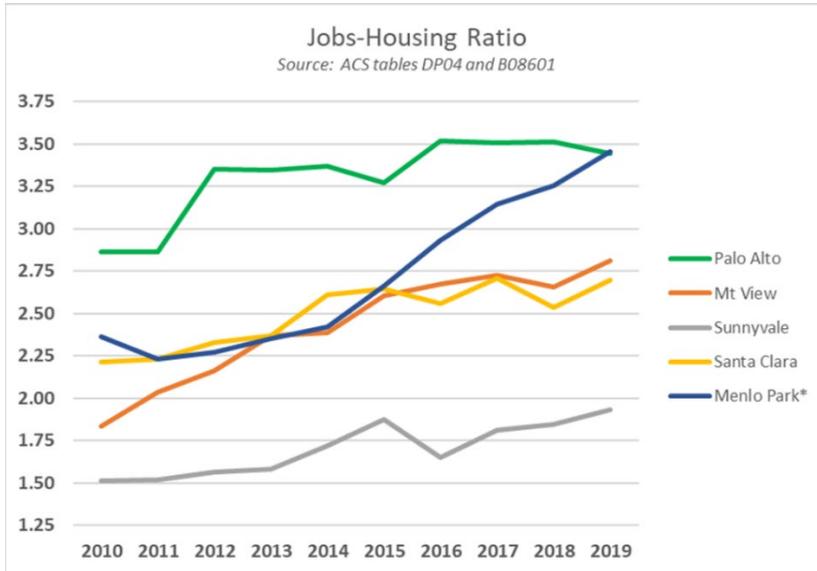
After the end of the 2008 Recession, the entire Valley added jobs much faster than housing. In 2014, facing record-high and still-escalating jobs-housing ratios, Palo Alto began what became a two-pronged effort to concurrently manage both Demand and Supply for city housing:

- Demand suppression: Council imposed nonresidential development caps in 2015 and 2018; PHZ projects must be net-housing-positive.
- Supply support: residential upzoning, including 2018’s “Housing Incentive Program,” residential upzoning of multi-unit and near-transit districts, an Affordable Housing Overlay, and 2019’s “PHZ” tool, which established a vehicle for the city to negotiate relaxed multi-unit design standards in exchange for higher BMR inclusion rates.

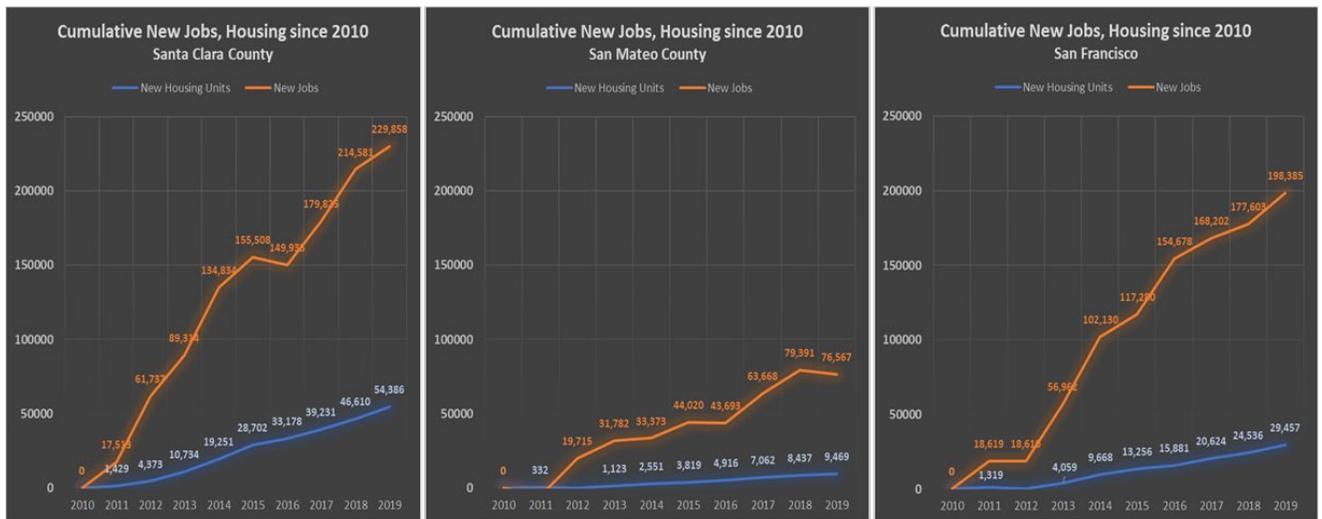
This dual-focus “Jobs-Housing First” policy has not been without controversy, including prompting one regional organization’s famous remark, “‘Jobs’ is not a four-letter word!”¹

While supply-side results are still ambiguous, a pipeline of interesting projects has developed. And with the caveats that (1) correlation is not causation, and (2) ACS data is not perfect, there are some positive indicators: Palo Alto job growth appears to have stopped since 2016, while continuing to surge elsewhere in the region; and our jobs-housing ratio appears to have plateaued and may even be edging slightly downwards. Also encouragingly, the rate of appreciation of rental housing costs in the City appears to have slowed since 2015, despite continuing and in some cases accelerating in other job-rich parts of the Valley.





For these reasons we ask the Grand Jury not to simply dismiss this approach; but consider it, and monitor it, as the region evolves over the next several years. Balancing the demand and supply for housing has become a vexing problem for the entire region; multiple approaches should be on the table.



Source: ACS 5-yr data tables B08601, DP05; US Census H1

1. <https://www.mercurynews.com/2019/01/10/i-want-to-see-the-valley-step-up-gov-newsom-pressures-companies-to-help-build-housing/>