

AFFORDABLE HOUSING ACTION PLAN



City of Menlo Park
Housing Commission

Approved by Menlo Park City Council on
January 30, 2001

CREDITS

AFFORDABLE HOUSING ACTION PLAN

The Affordable Housing Action Plan is a result of a comprehensive and cooperative effort which took over a year to complete. Listed below are the members of the Housing Commission which developed and recommended adoption of the Affordable Housing Action Plan to the City Council and the members of the City Council which adopted the Plan.

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CITY OF MENLO PARK

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MENLO PARK AFFORDABLE HOUSING ACTION PLAN

EXECUTIVE SUMMARY

The Menlo Park Housing Commission recommended to the City Council that an Affordable Housing Action Plan be created because we believe that a diverse supply of housing is important to maintain a high quality of life in our community. This issue is essential because vital members of our community face an enormous challenge in the current housing market. The increasing cost of rent and high home prices make it difficult, if not impossible, for critical workers in our community, such as Menlo Park teachers, firefighters, and other public service workers, to live here.

Also, the City has accumulated a BMR Housing Reserve Fund of \$2.6 million that provides opportunities to assist housing. At the same time, Menlo Park's Redevelopment Agency will acquire land for a major park and residential development in the Hamilton Avenue Corridor. The time is right to plan for more below market rate housing.

Menlo Park's Housing Commission and City housing staff worked with a housing consultant team over a nine-month period exploring potential project and program ideas. These ideas are presented in the body of the Plan and include recommendations to modify regulations, create new housing developments, and build upon redevelopment efforts already underway.

The Housing Commission recommends the following action steps:

1. Initiate work program for the Hamilton Avenue Park and Housing site.
2. Initiate work program for the Oak Grove site.
3. Housing Commission to define an additional project within six months of plan adoption.
4. City to revise the BMR Housing Program, including the Commercial Linkage Fee.
5. Housing Commission to work with Planning Commission in revising the City's Housing Element, including review of zoning to encourage desired housing development.
6. City to hold discussions with public agencies and private organizations regarding sites that are presently underutilized that could become housing opportunity sites.

7. City to research/assess additional funding sources that can be used for housing programs and projects.
8. City to work with adjacent cities to address local housing needs.

Plan Organization

This Plan is organized as follows:

1. Introduction.
2. Part I – Recommended Residential Projects (Hamilton Avenue Park and Housing and Downtown Oak Grove Plaza)
3. Part II – Recommended Changes to the BMR Housing Program
4. Part III - Implementation Plan

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AFFORDABLE HOUSING ACTION PLAN

I. INTRODUCTION

Purpose of Affordable Housing Action Plan

The Housing Commission of Menlo Park proposed that the City create its first Affordable Housing Action Plan because the Commission believes that a diverse supply of housing is essential in maintaining a high quality of life in Menlo Park. The increasing cost of rents and high home prices make it difficult, if not impossible, for critical workers in our community, such as teachers, police, firefighters, and other public service workers to live in Menlo Park. As a consequence, many of the people who work here cannot afford to live here.

Both rents and sales prices have skyrocketed in the last several years. Although the percentage increases in both median and average prices between 1998 and 1999 (17% and 19% respectively) were not as high as percentage increases between 1996 and 1997 (26% and 25% respectively), the actual amounts of the price increases were similar. Both median and average home prices in Menlo Park jumped over \$100,000 in the last year alone, similar to the increases between 1996 and 1997. (See Table 1 below.)

Table 1: Increases in Menlo Park Home Prices, 1994-99

Year	Median Price	% Change	Average Price	% Change
1994	\$406,675		\$445,842	
1995	\$407,958	0.3%	\$451,070	1.2%
1996	\$445,208	9.1%	\$483,230	7.1%
1997	\$559,000	25.6%	\$604,119	25.0%
1998	\$600,333	7.4%	\$664,456	10.0%
1999	\$700,863	16.7%	\$791,227	19.1%
Total Price Increase 1994-1999	\$294,188	72.3%	\$345,385	77.5%

Source: Silicon Valley Association of Realtors as reported in the *Palo Alto Weekly* (3/24/00)

A similar pattern is observed in rents, although not as extreme. Many Menlo Park residents who rent despair that they will never be able to afford a home here, and others are moving away because of increases in rent rates. An example of rent increases in San Mateo County is provided by RealFacts, an organization that tracks rents charged in large rental projects.

According to RealFacts data, rents for studio apartments increased by approximately 30% between 1997 and the first quarter of 2000; rents for one-bedroom, one bath units increased by 28%, with half this increase in the last year alone. Finally, rents on two-bedroom, two-bath units increased by 43% between 1997 and 2000. In fact, average monthly rents for a two-bedroom, two-bath apartment are close to \$1,900 monthly. These escalating prices and rents, as well as a vacancy rate of less than two percent, typify housing market conditions in which demand exceeds supply.

The lack of housing affordable to the work force characterizes the entire Silicon Valley region. In the last year, housing has become a very hot topic, as evidenced by newspaper articles, radio talk shows, and housing forums held by local governments and business groups. Menlo Park is not alone in grappling with overheated market conditions. These market conditions also have a direct impact on Menlo Park's safety and viability, since it has become difficult for public servants and teachers to live in the city they serve. Developing more below market housing opportunities to assist Menlo Park's teachers, firefighters, and municipal workers is a daunting task. Nevertheless, it is possible to make positive improvements.

A second reason to create an Affordable Housing Action Plan is Menlo Park's obligation to address the need for affordable housing. Thirdly, Menlo Park is required to utilize funds available in Menlo Park's BMR Housing Reserve Fund (\$2.6 million). Thus, the Affordable Housing Action Plan will outline a program for using these BMR funds.

Finally, the City is in the process of acquiring land for a planned park and housing development along Hamilton Avenue in the Belle Haven neighborhood. Defining a preliminary concept for the Hamilton Park residential development is one of the first steps in this process. This Plan provides this concept as well as initial financial feasibility assessment.

Housing Element and the Affordable Housing Action Plan

Although this is the City of Menlo Park's first Affordable Housing Action Plan, the City already has a Housing Element adopted in 1992. A Housing Element is an overall policy plan that also guides programs. Work to revise the 1992 Housing Element will begin in January 2001 and should be completed by the end of 2001. The Planning Division, Housing Commission, Planning Commission, and City Council will be responsible for the revised Housing Element.

Housing site identification and rezoning are two activities that are directly applicable to the Housing Element work. As part of its work in developing the Affordable Housing Action Plan, the Housing Commission considered housing opportunity sites and areas for possible rezoning. The Housing Commission's site and zoning recommendations will be forwarded to the City's Planning Division and Planning Commission for consideration in the Housing Element update process.

In contrast to the Housing Element, the Affordable Housing Action Plan presents priority items for short-term action and can be revisited on an annual basis. The Affordable Housing Action Plan could be reviewed annually and updated as needed. This review could occur prior to the City Council's January annual priority setting session. If possible, the City could include the BMR annual report with this review as well.

Target Groups

Menlo Park's Housing Commission has determined that the primary target groups to be assisted by the programs and projects recommended by this Plan are Menlo Park teachers, firefighters, and Menlo Park city employees. A key to providing housing opportunities for Menlo Park public employees is to encourage a diverse housing supply, defined as providing rental and ownership housing opportunities for a range of incomes.

The private market in Menlo Park serves households that earn substantially above moderate incomes.¹ However, moderate-income households cannot afford to purchase housing in Menlo Park. For example, a moderate-income household consisting of an entry-level account clerk and an experienced police officer, whose combined household income is \$88,177, can only afford to buy a house that costs approximately \$313,000. At present, very few houses are available for that amount. Thus, this family would need to buy a home outside of Menlo Park or would need to rent an apartment in Menlo Park.

¹ The U.S. Department of Housing and Urban Development (HUD) defines four major income groups. Very low-income households are those that receive less than 50% of the area median income (AMI); low-income households receive less than 80% of AMI, moderate-income households receive up to 120% of AMI, and above-moderate income households earn over 120% AMI. Household income is adjusted for household size. According to the 2000 income limits for San Mateo County (which includes Menlo Park), for a household of four, these respective AMI figures are: \$37,450 for very low-income, \$58,300 for lower-income, \$89,800 for moderate-income, and above

The situation is even worse for a low-income household, for example a single parent family supported by an entry-level teacher working for the Menlo Park City School District and earning \$34,400 annually. This family could not afford to purchase a home, since the maximum that it could afford would be a \$117,450 home (unavailable in the Menlo Park housing market). Neither could this household afford to rent a unit in Menlo Park, since an affordable rent estimated at \$843/month would not be sufficient to obtain suitable rental housing in Menlo Park. Since housing development costs are so high in Menlo Park, it is difficult to build new for-sale housing to benefit moderate-income households. It is also impossible to build new market rate rental housing affordable to low-income households. Therefore, expanding housing opportunities for low- and moderate-income households is the focus of this Plan.

Affordable Housing Action Plan Principles

The Affordable Housing Action Plan recommendations are based on a number of guiding principles. These are as follows:

- *The primary target group for housing assistance consists of Menlo Park public employees (defined above) who cannot find housing they can afford.*
- *The City of Menlo Park will collaborate with existing public agencies and organizations, e.g., County of San Mateo Housing Authority and non-profit developers, that are experienced in both developing and managing housing. The City will rely on the expertise provided by these other agencies and organizations. However, the City can specify requirements that the housing developer must meet, such as reducing the number of parking spaces per unit in downtown rental housing. And where practical, the City can explore the possibility of direct purchasing of housing to be provided as affordable under these principles.*
- *Increased housing opportunities in downtown Menlo Park will maintain vitality in downtown and increase retail activity.*

moderate are households earning over \$89,800.

- Developing new housing near transit will increase trip generation to a lesser degree than would new housing not located near transit. This assumes that housing located near transit promotes the use of public transportation.
- In addition to for-sale BMR units, rental BMR housing should be developed, since it provides residents and workers with more housing options.
- Most rental housing assistance will be provided directly to developments (not to renters) to insure permanent affordability of housing units. However, some assistance can be provided to tenants in the form of assistance with move-in costs (security deposit, first and last month's rent). The City could rely on an existing organization (to be identified) to administer this assistance.
- Whenever possible, affordable housing projects will be developed using housing funds from other public and private sources. In this way, city funds are leveraged to produce more housing than otherwise possible.
- Where feasible, programs and projects using city funds should include a component requiring funds to recycle back to the City. Since local housing funds are difficult to accumulate, reversion of funds back to the City's housing fund creates a revolving loan fund that can be used to benefit additional households. Another way to recycle housing resources is to retain ownership of city land and provide the land to a developer on a long-term lease.
- Some regulatory changes are acceptable, including modifications to the BMR Housing Program and possible zoning redesignation.
- Good design is critical particularly from a "street" perspective. Good design aids a community's acceptance of more intense housing development.
- Only projects or programs that "fit" with Menlo Park's existing patterns of development will be considered. Projects that are acceptable in San Jose may not be a good "fit" in Menlo Park. Appropriateness can be assessed on the basis of design and land use intensity.
- Where feasible, large, non-residential landowners should provide housing on site for their employees.

Plan Organization

This Plan is organized into three parts as follows:

Part I Recommended Residential Projects

Part II Recommended Changes To The Existing Menlo Park BMR Housing
Program

Part III Implementation Plan

A technical Appendix is presented at the end of this Plan.

PART I

RECOMMENDED RESIDENTIAL PROJECTS

Two sites have been selected as highest priorities for residential development. These include one site in Belle Haven (Hamilton Avenue) and one in the downtown area (Oak Grove Plaza). The Affordable Housing Action Plan recommends that the City proceed as soon as possible with the Hamilton Avenue and Oak Grove Plaza work plans for these two projects. In addition, the Action Plan also recommends that the Housing Commission and City Council work together to identify a third site for an affordable development within six months following Plan adoption.

- *Hamilton Avenue Park and Housing* - The City plans to acquire six to seven acres on the north side of Hamilton Avenue, just east of Chilco Street in Belle Haven. Approximately half the site will be used for a community park, and the remainder will be available for housing. Changing the site zoning from M-2 (industrial) to R-3 will allow the development of approximately 40 housing units on the property in small lot detached or townhouse type units.
- *Oak Grove and Chestnut Street Parking Plaza (Downtown Oak Grove Plaza)* - This concept would use a portion of Menlo Park Parking Plaza No. 2 as a housing site, using one level below grade and a small structure on the remainder to replace the lost parking and meet the parking needs for the residential development. There would be an opportunity to add parking to meet the current unmet demand for downtown parking. As a City owned parcel, the “land cost” is the cost of replacing the surface parking in a structure, which is considerably less than the market rate acquisition of property in Menlo Park. This concept would produce 28 rental units in a three-story structure that would meet the City’s R-4 requirements.
- *A Third Project To Be Determined*

The Affordable Housing Action Plan work included defining proposed projects at Hamilton Avenue and Oak Grove Plaza. Therefore, more detailed information on financial feasibility and a future work program for these two sites is presented here. It is anticipated that similar planning work for a third project will commence in 2001.

Financial Feasibility

This section presents potential housing prototypes for these two sites identified as the most practical for development of Menlo Park work force housing. Based on recent experience of non-profit developers, this section presents sample cost pro formas to indicate the funding gaps associated with the prototypes. Since this work is very preliminary only one project scenario is analyzed at this time for each site.

This feasibility assessment includes estimates of land and development costs, as well as potential rents and sales prices. Comparing the development costs with targeted sales prices in the case of for-sale housing or with net operating income (for rental housing) yields an estimate of the "affordability gap".

There are a number of ways that this gap can be filled or reduced. These are presented at the end of this section.

Hamilton Avenue Park and Housing

Table 2 presents the Hamilton Avenue Park and Housing prototype. If zoning redesignation permits 16 single-family units per acre on small lots, this prototype assumes that there could be a total of 40 housing units. This prototype further presumes that the 40 units will consist of ten, two-bedroom two-bath units (@ 900 square feet) and thirty, three-bedroom, two bath units (@ 1,200 square feet). Each unit will provide a two-car garage.

Based on recent development costs provided by a non-profit developer, it is further assumed that the actual development costs will be \$153,000 and \$204,000 respectively. The City's estimate for land and demolition adds an additional \$175,000 per lot, and an estimate of \$27,750 for infrastructure costs. This yields a per unit development cost of \$355,750 for the two-bedroom units and \$406,750 for the three-bedroom units.

These costs are then compared with the potential purchase prices affordable to two household income groups, defined relative to the Area's Median Income (AMI). The first is a household earning 100% of AMI (\$75,000 for a household of four), and the second is a household earning 120% of AMI (\$90,000 for a household of four). Although these salary ranges are above most beginning salaries of Menlo Park public service workers, the mid-range salaries are not as far off, particularly if there is more

Table 2: HAMILTON AVENUE PARK-HOUSING PROJECT PROTOTYPE
Small lot single family units @16 units/acre - 2.5 acres

Number of Units	10	30
Description	2 bed/2 bath	3 bed/2 bath
Unit square feet	900	1,200
Development cost @ \$170 (1)	\$153,000	\$204,000
Land cost @ \$7 million/40 units (2)	\$175,000	\$175,000
Infrastructure Costs (2)	\$27,750	\$27,750
Total Unit Cost	\$355,750	\$406,750
Household Size	3	4
Maximum price to household at 120% median household income (3)	\$281,900	\$313,270
Gap	\$73,850	\$93,480
Maximum price to household at 100% median household income (3)	\$234,920	\$261,060
Gap	\$120,830	\$145,690
Total Funding Gap		
Households at 120% of median household income	\$738,500	\$2,804,400
Households at 100% of median household income	\$1,208,300	\$4,370,700
Average Gap (Subsidy) per Household		
Households at 120% median household income (approximately \$90,000)		\$88,573
Households at 100% median household income (approximately \$75,000)		\$139,475
<u>Notes</u>		
(1) Eden Housing Adams Avenue project (Fremont)		
(2) Menlo Park staff estimate		
(3) Based on ability to pay (See Appendix).		

Source: Vernazza Wolfe Associates, Inc.

than one wage earner in the household. (See the Appendix, Section 1 for a discussion of households' ability to pay for housing and typical wages in Menlo Park.)

Given these target income groups, there is a potential affordability gap of between \$73,850 and \$93,480 for households at 120% AMI and a gap between \$120,830 and \$145,690 for a household at 100% AMI, depending on unit size. (This assumes a 95% loan at an 8% fixed interest rate for 30 years.) However, if the City were to provide the land required at a below market price (under \$175,000 per unit), this gap can be reduced or eliminated completely. In fact, the City could still receive back a portion of the land costs even without additional subsidies. On average, for the 100% AMI group, the City could recoup approximately \$35,000 per unit (\$175,000 minus \$139,475) and for the 120% AMI group this figure rises to approximately \$86,000 per unit (\$175,000 minus \$88,573).

Another option to consider is selling a portion of the land or units at market rate prices. Depending on how many lots or units are sold at market rate prices, it is possible to decrease and even eliminate the gap. (The impact of this option on the gap analysis is presented in the Appendix, Section 2.) It is important to remember, however, that for every market rate lot or unit sold, there will be one less below market rate unit.

Downtown Oak Grove Plaza Housing

The second housing prototype, Downtown Oak Grove Plaza Housing, differs from the Hamilton Avenue housing prototype in two significant ways. First of all, it is proposed as a rental project, instead of an ownership project. Secondly, Oak Grove Plaza is proposed to be built on land that is currently owned by the City and used for surface parking. In the event the City moves forward with this project concept, it will be necessary to replace the existing surface parking, with a more compact parking structure. Thus, the land costs for this project scenario include the costs for the replacement parking structure. In the prototype presented below, only one-for-one replacement parking is included, but it would be possible to add additional parking on the site, if this is the direction favored by the City.

Table 3 presents the Downtown Oak Grove Plaza Housing prototype. It assumes that zoning redesignation will permit 28 multifamily units on a parcel consisting of 27,500 square feet. An equal number of one-bedroom, one bath and two-bedrooms, two bath units is proposed. The one-bedroom units provide 600 square feet of living space,

TABLE 3: DOWNTOWN OAK GROVE PLAZA HOUSING
Multifamily 3 Story Building On Downtown Parking Plaza Site
@ Approximately 40 Du/Acre Plus 10% BMR Density Bonus

Number of Units	14	14
Description	1 bed/ 1 bath	2 bed/2 bath
Unit square feet	600	850
Development cost @ \$170 (1)	\$102,000	\$144,500
Parking cost	\$15,000	\$15,000
Land cost (replacement parking) (2)	\$50,893	\$50,893
Total Unit Cost	\$167,893	\$210,393
Total Development Costs	\$5,296,004	
First mortgage supported by cash flow	\$3,035,000	
Remaining Gap	\$2,261,004	
Average Gap (Subsidy) per household (3)		\$80,750

Notes

(1) Based on Eden Housing Roberts Avenue Teacher Housing.

(2) See Appendix for calculation of land costs.

(3) Calculations are based on the assumption that 7 of the one-bedroom apartments are rented by households at 60% median household income, and the remaining 21 one- and two-bedroom apartments are rented by households at 80% of median household income.

Source: Vernazza Wolfe Associates, Inc.

while the two-bedroom units provide 850 square feet of space. Finally, one parking space is proposed for the one-bedroom and two-bedroom units.

Based on recent development costs provided by a non-profit developer, construction costs of \$170/sq.ft. are proposed. Infrastructure costs are not added in as a separate cost item, since the Oak Grove Plaza Housing is located in a built-up area. Based on the assumptions stated above regarding parking, actual development costs, including replacement parking and required parking for the housing development, range from approximately \$168,000 for a one-bedroom unit to \$210,400 for a two-bedroom unit.

Gap calculations for rental housing are computed differently than for-sale housing. Whereas gap assessment for ownership housing is based on the difference between development costs and sales prices, gap assessment for rental housing is based on a comparison of development costs with the size of a first mortgage that can be supported by net operating income from the property. According to the calculations presented in the Appendix, Section 3, the portion of development costs that cannot be funded through the first mortgage is \$2,261,000. This translates to a per housing unit subsidy of \$80,750.² If the City were to provide the required replacement parking, this gap can be substantially narrowed.

Recommended Project Assistance

There are many ways to lower the cost of existing housing and assist in the development of housing for specified target groups. Many of these approaches are within the City's control, such as direct financial assistance, zoning redesignation, selling some of the lots at market prices to reduce the amount of the overall gap, or selling some of the units developed at market rate prices and using the gain to bridge the gap on the remaining assisted units.

Other mechanisms require competitive applications to be submitted to the County, State or Federal governments. Finally, private philanthropy can be another source of funds for housing. These approaches are presented below.

² This subsidy cost is actually higher for households at 60% of AMI and lower for households at 80% of AMI. For the purposes of this discussion, a weighted average of the affordability gaps for both 60% of AMI and 80% of AMI is presented here.

Options for City Assistance

- Expend BMR Funds

Since one of the primary motivations behind the Affordable Housing Action Plan is to suggest ways to expend the BMR Housing Reserve Fund, use of BMR funds is considered first. These are discretionary funds as long as they are spent on housing related activities in support of low- and moderate-income housing development. Specifically, these uses outlined in the BMR Guidelines include the following activities:

1. Provision of below market rate financing for home buyers.
2. Purchase of land or air rights for resale to developers at a reduced cost to facilitate housing development for low- or moderate-income households.
3. Reduction of interest rates for construction loans or permanent financing, or assistance with other costs associated with development or purchase of low- or moderate-income housing.
4. Rehabilitation of uninhabitable structures for low- or moderate-income housing.
5. On-site and off-site improvement costs for production of affordable housing.
6. Reduction of purchase price to provide units that are low or moderate cost.
7. Rent subsidies to reduce the cost of rent for households with limited incomes.

Many of the allowable uses of BMR housing funds could benefit the Hamilton Avenue and Oak Grove projects. In addition, the City could consider increasing the funding for PAL Loans, which would be utilized for the Hamilton Avenue project. The average PAL loan amount per household is now reaching \$40,000. If

the City were to assist an additional 20 households, then costs could total \$800,000. As is true under the present program, these funds can be recaptured.

Since potential expenditures to fund this Plan exceed the BMR Housing Reserve Fund (approximately \$2.6 million at present), the City will need to evaluate other ways to fund the Plan recommendations. Table 4 summarizes assistance needed for the two development options as well as additional assistance needed if the number PAL Loans is increased to accompany new BMR units.

TABLE 4: EVALUATION OF POTENTIAL HOUSING OPPORTUNITIES

	Hamilton Avenue	Oak Grove Plaza	PAL Loans
Number of Households Assisted	40	28	20
Affordability (targeting)	100% to 120% of Area Median Income	60% to 80% of Area Median Income	Up to 120% of Area Median Income
Target Household Income Range	\$67,400 to \$89,880	\$36,000 to \$52,500	Depends on Household Size, e.g., 4 person household- \$89,880
Maximum Funds Required	\$3,542,900 to \$5,579,000 (1)	\$2,261,000	\$800,000
Recapture of Funds	Partial recapture possible, depending on land sales price.	Partial recapture is possible, if assistance is provided in the form of a second mortgage.	Yes, by monthly payments and when loans are paid off.
Maximum Amount of Potential Gap Per Household	\$88,573 to \$139,475	\$80,750	\$40,000
Other Subsidies Possible	Redevelopment Funds	Possibly federal and state funds	Redevelopment Funds

(1) The lower number represents assistance to households at 120% AMI, and the higher number represents assistance to households at 100% AMI.

Source: Vernazza Wolfe Associates, Inc.

Regarding the use of BMR funds for the proposed new developments, Hamilton Avenue requires the largest subsidy, but is the one project for which redevelopment funds have already been allocated. If BMR funds are used to fund the financing gap for Oak Grove Plaza, that assistance could be partially recaptured. For example, a portion of the assistance could be provided in the form of a silent second mortgage for the first five to ten years. Then, as cash flow improved, payments could commence to the City.

- Redevelopment Agency Funds

Redevelopment Agency Funds are primarily targeted to the Las Pulgas Community Development Project Area, where the Hamilton Avenue site is located. If redevelopment funds are available, these should be targeted to developments on these sites, freeing up BMR funds for other locations.

Possible uses of redevelopment funds include the following:

- ⇒ Purchasing and clearing land, and
- ⇒ Providing off-site improvements.

Although redevelopment funds could initially be used for land assembly and preparation, the City can still recoup some of these expenditures when houses are sold. For example, in the case of Hamilton Avenue, even if there is a land write-down (a reduction in the price of the land), the sales price could cover a portion of the land cost, and the house would still remain affordable to targeted income groups. The City can also use redevelopment funds for affordable housing located outside the project area, e.g. for Oak Grove Plaza.

- Other Assistance Under City Control

There are additional ways that the City can encourage housing development. Only one of these, rezoning, does not require direct or indirect outlays of funds. These other options include the following:

- ⇒ **Rezoning land** from commercial to residential uses can directly increase the amount of land available for housing. In a built-up community like Menlo Park, rezoning increases residential development opportunities.

- ⇒ **Fee waivers** – City fees are assessed on new development to cover costs, such as permitting and plan checks. The City can elect to waive all or part of these fees. This decreases development costs; however, the City indirectly pays for these waivers since fee revenues are reduced.

- ⇒ **Construction of structured parking** is a direct source of assistance for developments that require parking structures. This approach works well when parking is shared with another user, for example, in mixed-use developments located in downtown areas. In the future, the City could consider whether to assist both the residential and non-residential components of new development by providing structured parking that is owned by the City but used by the developments.

- ⇒ **Land write-down** is a tool that is used by government, particularly redevelopment agencies, to encourage development. The City can purchase land at a market price, and in turn, sell it to a developer at a below market price. Similar to fee waivers, this decreases total development costs.

- ⇒ **Land assembly** refers to the acquisition of parcels owned by different entities. This acquisition may or may not require the power of eminent domain. The City can then sell the assembled land to a developer for a purpose the City wishes to encourage. The land can be sold at a market rate or at below market rate. Menlo Park provides a service to the developer, who may not be able to assemble parcels privately.

- ⇒ **Off-site and on-site improvements** may be all or partially paid for by a City. By sharing in these costs, the City decreases development costs to the developer. Off-site improvements may include roads, sidewalks, curbs, gutters, traffic signals and signs, sewers, storm drains, etc. On-site improvements can include parking, grading, landscaping, etc.

Other Public Options

There are other funding sources available through the public sector. At this time, the primary program for family and non-special needs housing is the Low-Income Federal Housing Tax Credit Program, which serves only households with incomes at or below 60% of AMI. The Federal Housing Tax Credit Program operated by the California Tax Credit Allocation Committee is highly competitive. Applications are accepted two to

three times each year. In the last year, this Program has changed its scoring criteria for how applications are ranked. The City would not need to apply directly for Tax Credits. It would be the responsibility of the developer.

Secondly, the State's FY 2000/01 budget allocates \$500 million towards housing and related expenditures. This is the largest allocation of funds ever included in a State budget. Similar to the Federal Tax Credit Program, these funds are available on a competitive basis. Major funding areas include development of multifamily rental housing, first-time homebuyer assistance, and funds for community amenities. A high priority will be given to proposed multifamily projects that have already identified and secured sites for new housing.

A third source of funds is available from the San Mateo County Congestion Management Agency (CMA). The CMA allocates up to \$2.3 million annually in grants for residential development meeting certain parameters. Although grants were intended to average \$2,000 per unit, the first year's grants were slightly lower, since many projects applied for funds. In order to qualify, housing must be built at a density of 40 units per acre and located within 1/3 mile of a rail station. The proposed housing at Oak Grove Plaza could qualify for these grants. The use of these grants is restricted to eligible transportation projects, such as transit or pedestrian improvements.

The Metropolitan Transportation Commission (MTC) has established another grant program, the Housing Incentive Program (HIP) that is very similar to the CMA grant program. Grants of \$1,000 per bedroom (for projects at 25 units/acre) or \$2,000 per bedroom (for projects at 60 units/acre) are available for new housing located within a 1/3 mile walk from transit (e.g., bus route, rail station, or ferry dock) that offers service at 15 minute frequencies or better. A \$500 bonus per bedroom is awarded for all affordable units. These funds can be used for any neighborhood based transportation projects that are consistent with MTC's Transportation for Livable Communities program. At this time, grant funds have been authorized for the first grant cycle in 2001 only.

Finally, San Mateo County passes through some federal funds to its constituent cities, such as HOME and CDBG funds. Presently, Menlo Park is utilizing programs that are available.

Other Local Options

Additional assistance options include private philanthropy; other public agencies, such as the school districts; churches, and other non-profit participation or sponsorship.

Hamilton Avenue and Oak Grove Plaza Work Programs

Once the Affordable Housing Action Plan is approved by the City Council, the next step is to develop project concepts and gauge developer interest in building on these sites.

Once the City has refined the project concepts, the next step is to create a developer RFQ to initiate the development process for one or more of the sites. These required steps are outlined in work programs for the two sites which are presented in the Appendix, Sections 5 and 6.

PART II

RECOMMENDED CHANGES TO THE BMR HOUSING PROGRAM

In addition to identifying specific project opportunities, this Affordable Housing Action Plan has also reviewed the City's existing housing programs. Menlo Park currently operates the following housing programs:

- Below Market Rate Housing Program - includes a BMR residential component and a BMR commercial component, the Below Market Rate Housing Reserve, and the PAL first-time home buyer second mortgage loan program.
- Housing Rehabilitation Loan Program - provides funds to property owners citywide who are either low-income (below 80% AMI) or who rent to tenants who are below 80% AMI (\$58,300 for a household of four). The maximum repayment period is 15 years.
- Emergency Repair Loan Program - provides smaller loan amounts to repair immediate hazards. Loans are provided for a shorter period of time in comparison to the regular Housing Rehabilitation Loan Program.

The Housing Commission, at this time, does not recommend changes to the PAL Program, the Housing Rehabilitation Loan Program, or the Emergency Repair Loan Program. The Housing Commission does recommend changes to the Below Market Rate Housing Program. To assist consideration of possible program changes, a Nexus Study has been completed, and the Housing Commission has recommended changes to this program in separate memoranda. The process of revising the BMR Housing Program is currently proceeding.

The Below Market Rate Housing Program (BMR) was adopted in 1987. It has resulted in the development of 25 below market rate, for-sale housing units, all in the last four years. During this time period, it has been the primary program producing below market rate units. In addition, the BMR Housing Reserve created under the BMR Program provides Menlo Park with discretionary housing funds. The PAL Loan Program, funded by the BMR Housing Reserve Fund, provides downpayment assistance to first-time home buyers of BMR housing units, as well as first-time home buyers of existing units. Since the BMR Housing Program has been so important, both in the production of housing

units and in the creation of a housing reserve fund, this section discusses this program and presents recommended changes.

BMR Housing Program (Housing Component)

The BMR Program Ordinances and associated guidelines specify program parameters. The Housing Commission recommends that some or all of these parameters be reconsidered to encourage an increase in BMR units and/or BMR housing fees. The present parameters and suggestions include the following:

- **Threshold Project Size** defines the minimum size of the residential development for which the Program applies. At this time, the threshold size is 10 units. The Housing Commission recommends that the household threshold be reduced to five or more units. However, developers of projects consisting of 5 to 9 units could pay in-lieu fees, instead of being required to provide units. These fees would be calculated in the same way that fractional BMR units are currently assessed to residential developers.
- **Percent BMR Units** is presently 10% - in other words, out of every ten units constructed, a developer is responsible for creating one BMR unit. If this percentage is increased, then additional BMR units could be produced. The Housing Commission recommends increasing this percentage to 15% for large-scale developments, defined as those consisting of 20 or more units.
- **Density Bonus** is currently 10% to 15%. For every BMR unit built, a developer is entitled to an additional one unit over that otherwise allowed by zoning, up to a 15% density increase. The Commission recommends retaining the current density bonus policy.
- **In-Lieu Fees** are paid by developers for fractional BMR Housing Units. For example, if a developer builds 16 market rate units, then the BMR housing requirement would be 1.6 units. The developer provides one BMR housing unit and pays an in-lieu fee for the fractional unit. This fee is based on a sales price formula created in 1988. At this time, the Housing Commission recommends retaining the current formula.

BMR Housing Program (Commercial Component)

Commercial Linkage Fees are paid by developers of new commercial space that exceeds 10,000 square feet in size, in lieu of providing housing for their employees. With the exception of cost of living adjustments, these fees have remained the same for the past 12 years.³ These fees do not now reflect the increased costs of residential development and land. A recently completed Nexus Study provides a sound, quantitative basis for increasing commercial fees. The Housing Commission recommends increasing the fee and adopting the following policy changes:

- **Increase the commercial fee** to \$10/sq.ft. for office/R&D space and \$5.45 for commercial/industrial space.
- **Reassess the commercial in lieu fee with regard to financial feasibility if and when commercial real estate market conditions change.**
- **Change the annual adjustment mechanism for the commercial in lieu fee** from the CPI to the price index of new homes sold in San Mateo County, published by the Construction Industry Research Board, which will more closely reflect the change in housing costs.
- If a **commercial use changes and the new use is more intensive**, the City could impose a fee that represents the difference in linkage fees between the old, less intensive use, and the new, more intensive use, to reflect the associated increase in housing demand.
- Similar to the housing component of the BMR program, the Housing Commission recommends that the **commercial program also require the provision of units over fees**. Since there is no single way to define how the developer could achieve this goal, changes to the Ordinance could encourage developers to make creative proposals. The revised Ordinance could provide some suggestions for commercial developers, such as provision of sites, purchasing of market rate units to re-sell as BMR units, building BMR housing, and leasing BMR units.

³ The fee for new office space is presently \$1.92/sq.ft. and for warehouse/industrial space the fee is \$.76/sq.ft.

- Retain the project threshold size at 10,000 square feet of gross floor area but do not give an exemption for the first 10,000 square feet for projects of over 10,000 square feet in size, as the program currently does.

PART III: IMPLEMENTATION PLAN

Once this Plan is adopted by the Menlo Park City Council, there are several steps to take. A few of these are already funded and have started, or could be commenced within the next one to two years.

1. Initiate work program for the Hamilton Avenue Park and Housing site.
2. Initiate work program for the Oak Grove site.
3. Housing Commission to define a third project within six months of plan adoption.
4. City to revise the BMR Housing Program, including the Commercial Linkage Fee.
5. Housing Commission to work with Planning Commission in revising the City's Housing Element, including review of zoning to encourage desired housing development.
6. City to hold discussions with public agencies and private organizations regarding sites that are presently under-utilized that could become housing opportunity sites.
7. City to research/assess additional funding sources that can be used for housing programs and projects.
8. City to work with adjacent cities to address local housing needs.

AFFORDABLE HOUSING ACTION PLAN

APPENDIX

1. Ability to Pay for Housing
2. Menlo Park Hamilton Avenue Housing Mixed-Income Scenarios
3. Menlo Park Parking Plaza Housing
4. Terminal Avenue Housing
5. Work Program for Hamilton Avenue Housing
6. Work Program for Oak Grove Plaza
7. Definition of Terms

**1. ABILITY TO PAY FOR HOUSING
(VERY LOW-, LOW-, AND MODERATE-INCOME HOUSEHOLDS)**

Table A-1 below summarizes the maximum rent or purchase price affordable for various household income groups in Menlo Park. These tables are based on the HUD standard income categories, which define eligibility for participation in federal housing programs. The basis for the calculation is the San Mateo County median household income for a four-person household - \$74,900 as of March 2000. Thus, for example, a very low-income household of four persons would be one earning \$37,450 or less, defined as 50% of the median, and a moderate-income household earning 120% of the median would have an income of \$89,880.

**Table A-1: Menlo Park 2000: Ability to Pay for
Very Low, Low, and Moderate Income Households**

Very Low-Income Households at 50% of 2000 Median Household Income

Unit	Studio	1 Bedroom	2 Bedroom	3 Bedroom	4 Bedroom	4 Bedroom
Number Persons	1	2	3	4	5	6
Income Level	\$26,200	\$29,950	\$33,700	\$37,450	\$40,450	\$43,450
Max. monthly rent (1)	\$655	\$749	\$843	\$936	\$1,011	\$1,086
Max. purchase price (2)	\$91,318	\$104,388	\$117,459	\$130,529	\$140,985	\$151,442

Low-Income Households at 80% of 2000 Median Household Income

Unit	Studio	1 Bedroom	2 Bedroom	3 Bedroom	4 Bedroom	4 Bedroom
Number Persons	1	2	3	4	5	6
Income Level	\$40,800	\$46,650	\$52,500	\$58,300	\$63,000	\$67,650
Max. monthly rent (1)	\$1,020	\$1,166	\$1,313	\$1,458	\$1,575	\$1,691
Max. purchase price (2)	\$142,205	\$162,595	\$182,985	\$203,200	\$219,582	\$235,789

Moderate-Income Households at 120% of 2000 Median Household Income

Unit	Studio	1 Bedroom	2 Bedroom	3 Bedroom	4 Bedroom	4 Bedroom
Number Persons	1	2	3	4	5	6
Income Level	\$62,880	\$71,880	\$80,880	\$89,880	\$97,080	\$104,280
Max. monthly rent (1)	\$1,572	\$1,797	\$2,022	\$2,247	\$2,427	\$2,607
Max. purchase price (2)	\$219,163	\$250,532	\$281,900	\$313,270	\$338,365	\$363,460

Assumptions: (1) 30% of income devoted to maximum monthly rent, including utilities.

(2) 33% of income devoted to mortgage payment & taxes, 95% loan @8%, 30 year term.

Sources: HUD 2000 Income Guidelines and Vernazza Wolfe Associates, Inc.

Those maximum affordable rent level including utilities is based on spending 30% of income. Thus, a four-person household earning \$37,450 annually earns \$3,121 monthly, and could afford up to 30% of that income on housing, or \$936. It is assumed that homeowners could pay slightly more for their mortgage payments and property taxes, thus 33% of their incomes are

allocated for housing costs. The projected maximum affordable housing prices are estimated based on a 95%, 30-year mortgage at an eight percent interest rate. Thus, using the example of the four-person household earning \$37,450, the maximum priced house it could purchase would be \$130,529, with a mortgage of \$124,000, and down payment of \$6,529. The payments on a \$124,000 loan and property taxes on a \$130,529 house would require 33% of household income.

These income levels represent those eligible for housing assistance programs, including Menlo Park's Below Market Rate (BMR) Program. Only households earning less than 80% of the median are eligible for the BMR rental units, and only those earning less than 120% of the median are eligible to purchase BMR for-sale units.

Table A-2 presents information on selected Menlo Park public service employees. If these employees are in households with only a single wage earner, it is likely that many employees, particularly new hires, are below the 80% median income level.

TABLE A-2: CITY OF MENLO PARK – MAY 2000-SELECTED WAGE RATES

Job Title	Minimum	Mid-Range	Maximum
Police officer	\$51,640	\$56,877	\$62,718
Police sergeant	\$62,929	\$69,340	\$76,468
Recreation leader	\$20,530	\$22,430	\$24,505
Library circulation assist.	\$23,445	\$25,615	\$27,980
Account clerk I	\$31,300	\$34,210	\$37,450
Building custodian	\$35,750	\$39,180	\$42,910
Maintenance I	\$36,550	\$40,045	\$43,915
Administrative secretary	\$38,280	\$41,940	\$45,950
Maintenance III	\$45,950	\$50,440	\$55,315
Recreation supervisor	\$50,550	\$55,420	\$60,850
Engineer I	\$51,550	\$56,560	\$62,085
Building inspector	\$55,320	\$60,740	\$66,680
Librarian III	\$55,420	\$60,850	\$66,800
Engineer II	\$60,740	\$66,680	\$73,250

Menlo Park City School District

	Minimum	Average	Maximum
Teacher	\$34,400	\$55,100	\$67,370

Menlo Park Fire Protection District

	Minimum	Average	Maximum
Fireman	\$47,750	\$54,000	\$60,740
EMT/paramedic	\$53,660	\$60,000	\$66,650
Captain	\$70,800	\$72,560	\$74,320

Sources: City of Menlo Park and Vernazza Wolfe Associates, Inc.

2. MENLO PARK HAMILTON AVENUE HOUSING MIXED-INCOME SCENARIOS

A subsidy is required at Hamilton Avenue, since there is a gap between development costs and maximum purchase prices affordable for households at 100% and 120% of Area Median Income (AMI).⁴ One way to reduce the total subsidy required for the proposed housing development at Hamilton Avenue is to sell some of the housing lots at market rate prices.

Under the subsidized housing development scenario presented in Chapter II of the Affordable Housing Action Plan, it is assumed that each lot will cost the Redevelopment Agency \$175,000. This price includes all acquisition, demolition, and additional preparation costs. The total costs for the 40 lots were estimated at \$7 million. Table 2 (Chapter II) presents a housing project prototype that assumes total development costs of \$355,750 and \$406,750, depending on unit size. These development costs cover repayment to the City's Redevelopment Agency for land costs. In other words, it is assumed that the Redevelopment Agency receives back the entire \$7 million it may need to expend to acquire and clear the land for housing development.

A second option, however, is that the City could sell off a portion of these lots for market rate development.

⇒ If the sales prices for the lots are equal to the acquisition and demolition costs, the City still receives repayment of its initial land costs. Also, since fewer BMR units would be built, the total subsidy required for Hamilton Avenue is lower.

⇒ A second possibility is one in which the sales prices for the lots are greater than the original acquisition and demolition costs. In this case, some or all of the profits from the land sale can be applied to the BMR units to reduce the gap even further.

This Appendix presents two scenarios, summarized on Table A-3. The **first scenario** assumes that 14 of the 40 lots are sold at market rate, and the 26 BMR units developed are sold to households at 120% of area median income. In this case, the subsidy required is reduced from approximately \$3.5 million to \$2.2 million. The **second scenario** assumes that 18 lots are sold at market rate, and the 22 BMR units developed are sold to households at 100% of area median income. In this second case, the subsidy required is reduced from approximately \$5.6 million to \$2.9 million; however, only 22 BMR units would be developed, instead of 40.

⁴ 100% is equivalent to an income of \$75,000 for a household of four, and 120% is equivalent to \$90,000 for the same household size.

Table A-3: Summary of Hamilton Avenue Housing Mixed-Income Scenarios

Target Income Group	No. of Market Rate Lots @ \$175,000 per lot	No. of BMR Units	Total No. of BMR Units	Total Subsidy Required to Cover Affordability Gap
Scenario #1: 120% Median Income	14	16 three-bedroom units 10 two-bedroom units	26	\$2,234,180 ⁽¹⁾
Scenario #2: 100% Median Income	18	12 three-bedroom units 10 two-bedroom units	22	\$2,956,580 ⁽²⁾

(1) If 40 BMR units were developed for the 120% Median Income Group, the total subsidy required would be \$3,542,900.

(2) If 40 BMR units were developed for the 100% Median Income Group, the total subsidy required would be \$5,579,000.

The potential impact on reducing subsidies required for the BMR units from land sales prices that exceed \$175,000 per lot could be significant. However, this analysis does not include this potential impact, since it is very difficult to predict future land values, particularly in a market characterized by high volatility.

There are other ways to structure a mixed-income development approach. For example, instead of selling land for development, the City, working with its selected developer, could sell a portion of the completed units at market rate prices. Again, the goal is to reduce the total subsidies required to build and market the BMR units. The various possibilities of mixed-income development can be explored at the time the City is refining the Hamilton Avenue Housing project concept.

3. MENLO PARK PARKING PLAZA HOUSING

Background

The feasibility of utilizing parking lots as housing sites was explored as part of the Affordable Housing Action Plan work, since there is a shortage of available sites for housing in Menlo Park. Given the high cost of property, the feasibility of using a portion of a downtown parking plaza was examined. At a \$75 to \$100 per square foot land cost, the price of land per dwelling unit in Menlo Park ranges between \$176,000-\$235,000 per lot. (See Table A-4.) Adding two parking spaces per unit adds \$20,000 per housing unit. This makes it extremely difficult to produce new housing at prices affordable to many Menlo Park residents and workers.

TABLE A-4: ESTIMATED MENLO PARK RESIDENTIAL LAND PRICES

Land cost/square foot (1)	Cost/unit (2)
\$75	\$176,000
\$100	\$235,000

(1) Based on San Jose Mercury News (2/21/00)

(2) Land cost per unit at 18.5 units/acre, allowed by Menlo Park C-3 and C-4 zoning.

In 1986-87, the City of Menlo Park examined the feasibility of converting one or more of the downtown parking plazas to structured parking. An environmental impact report was completed on the project, but the project did not proceed because of merchant opposition to creation of an assessment district to pay for the structures. One of the alternatives considered at that time was the use of parking structure air rights for housing. The difficulty of developing housing over a parking structure is the 30-foot height limit in the downtown zone.

Allowable Development

The C-3 zone allows varying intensities of development, depending on use. For example, a 50% floor area ratio (10,000 square feet of building area on a 20,000 square foot parcel) is allowed for office space, 100% for retail, or up to 200% for retail if required parking is provided. Retail uses require six parking spaces per 1,000 square feet. Housing is a permitted use in the C-3 zone, but at a maximum density of 18.5 units per acre and requiring two parking spaces per unit.

Prototype

The best potential site for housing appears to be Parking Plaza #2, on Oak Grove between Chestnut and Crane. As a starting point, it is assumed that any development must replace the displaced parking (95 spaces at slightly under 300 square feet per space) in addition to meeting the parking needs of the potential development. Complying with the C-3 zoning and adding the BMR units would allow a total of 11 units. In addition to replacing 95 spaces, the development would need an additional 22 spaces for the 11 housing units. The limitation of 18.5 units per acre and two parking spaces per unit makes it difficult to justify a project. Therefore, this Plan suggests a different prototype that will require zoning redesignation.

The prototype presented here is based on a higher density (closer to 40 dwelling units per acre, plus a 10% BMR density bonus). This scenario meets the height restriction and allows more units. In addition, the Parking Plaza Housing scenario reduces the incremental parking requirement to one space per unit. This can be justified on the basis that the adjacent parking structure provides additional parking spaces and that proximity to downtown lessens dependency on auto trips. Thus, the total parking requirement is 123 spaces (95 replacement spaces plus 28 spaces for the housing development).

If a lower level parking deck is used on the whole site and two stories of parking are included on the remainder of the site (allowing for 25% of the building area for open space), the cost for constructing 95 replacement spaces is estimated at \$1,425,000, or \$15,000 per space. A prorated cost of approximately \$51,000 per housing unit, covering this replacement parking, is estimated as the proxy land cost per unit. The effective cost to provide the replacement parking plus the parking required for each housing unit would be approximately \$66,000 for each unit. This is considerably below the land costs presented in Table A-4.

Justification for Developing on Parking Plaza Site

Given the difficulties of finding available housing sites in Menlo Park, additional feasibility analysis should be conducted on the use of a downtown parking plaza site. Such residential use would be compatible with residential usage across Oak Grove, and would add a further customer base for the downtown business district. However, rezoning would be required to make the concept feasible.

Gap Analysis

Total development costs of the Parking Plaza 2 Housing are estimated at \$5,296,004. (See Table 3 in the Affordable Housing Action Plan.) Since the proposed Parking Plaza Housing is rental housing, gap calculations are computed differently than for-sale housing. Whereas gap assessment for ownership housing is based on the difference between development costs and sales prices, gap assessment for rental housing is based on a comparison of development costs with the amount of a first mortgage that can be supported by net operating income, or cash flow, from the property.

Table A-5 presents a rent schedule based on affordability limits set by the U.S. Department of Housing and Urban Development for two income groups – those earning up to 60% of area median income and those earning up to 80% of area median income. For the purposes of estimating the gap, it is assumed that two person households live in the one-bedroom units, and three person households live in the two bedroom units. Table A-6 uses these rents to assess net operating income for the first six years of operations. Initially, it is assumed that approximately \$280,000 will be available annually to cover debt service on a first mortgage. Based on a 30-year loan with an 8.5% market rate interest rate, a first mortgage of \$3,035,000 can be supported. A gap of approximately \$2.26 million remains. (See below.)

Total Costs	\$5,296,004
First mortgage supported by cash flow	\$3,035,000
Financing Gap	\$2,261,004

**Table A-5: PARKING PLAZA 2 HOUSING-MENLO PARK
RENT & AFFORDABILITY CALCULATIONS**

Br	Area	HH Size	Total # Of Units	% AMI	Max. HH Annual Income	Max. Monthly Rent	Total Annual Rental Income
1	600	2	7	60%	\$36,000	\$ 900	\$75,600
1	600	2	7	80%	\$46,650	\$1,166	\$97,965
2	850	3	14	80%	\$52,500	\$1,313	\$220,500

Source: Vernazza Wolfe Associates, Inc.

Table A-6: Menlo Park Parking Plaza Project Cash Flow Projection

	Factor	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Income:							
Shelter	2.50%	\$ 394,065	\$ 403,917	\$ 414,015	\$ 424,365	\$ 434,974	\$ 445,848
Income							
Total Income		\$ 394,065	\$ 403,917	\$ 414,015	\$ 424,365	\$ 434,974	\$ 445,848
Vacancy & Collection Loss	6.00%	\$ (23,644)	\$ (24,235)	\$ (24,800)	\$ (25,500)	\$ (26,100)	\$ (26,800)
Net Effective Income		\$ 370,421	\$ 379,682	\$ 389,215	\$ 398,865	\$ 408,874	\$ 419,048
Operating Expenses:							
Shelter: (1)	2.50%	\$ 95,928	\$ 98,326	\$ 100,784	\$ 103,304	\$ 105,887	\$ 108,534
Net Operating Income		\$ 274,493	\$ 281,355	\$ 288,430	\$ 295,561	\$ 302,987	\$ 310,515
Debt Service—First Mortgage (2)		\$ 280,000	\$ 280,000	\$ 280,000	\$ 280,000	\$ 280,000	\$ 280,000
Cash Flow		\$ (5,507)	\$ 1,355	\$ 8,430	\$ 15,561	\$ 22,987	\$ 30,515

(1) Based on Eden Housing Roberts Avenue Housing, inflated to Year 2000 dollars.

(2) Assumes a 30 year, 8.5% loan.

Source: Vernazza Wolfe Associates, Inc.

4. TERMINAL AVENUE HOUSING

The City-owned Terminal Avenue site is an approximately one acre linear parcel between the back of the homes on Terminal Avenue and the railroad tracks and between Chilco Street and the Onetta Harris Community Center in Belle Haven. This could be another site upon which to develop for-sale housing. The Terminal Avenue site was initially proposed by the Housing Commission at the August 12, 2000 Study Session. The City Council has directed that this site be considered as a longer term potential project.

With dimensions of 100' by 582' feet and with a school and fire station limiting access to the parcel, it would be necessary to acquire one home on a voluntary basis along Terminal Avenue to access the site. With a small access road, it would be possible to build 14 small lot detached homes on the site. This would require a re-zoning to R-3. The proposed housing type would be similar to existing, adjacent homes on Terminal Avenue.

Table A-7 presents the Terminal Avenue Housing prototype. If zoning redesignation of the land permits 14 single family units per acre on small lots, this prototype assumes that there could be a total of 14 housing units. This prototype further presumes that the 14 units will consist of four, two-bedroom two-bath units (@ 900 square feet) and ten, three-bedroom, two bath units (@ 1,200 square feet). Each unit will provide a two car garage.

Based on recent development costs provided by a non-profit developer, it is further assumed that the actual development costs will be \$153,000 and \$204,000 respectively. The City already owns the Terminal Avenue site, and actual land costs for the proposed project will need to be determined. For the purposes of this prototype, the land value has been estimated at \$100,000 per lot, based on recent home sales in the area. In addition to the Terminal Avenue site, it will be necessary to acquire one single family home in the area on a voluntary basis to provide access to the site. The acquisition and demolition costs have been estimated at \$350,000. These costs have been pro-rated on a per unit basis and added to the infrastructure costs of \$27,750, for a total of \$52,750. This yields a per unit development cost of \$305,750 for the two-bedroom units and \$356,750 for the three-bedroom units.

These costs are then compared with the potential purchase prices affordable to two household types. The first is a household earning 100% of AMI (\$75,000 for a household of four), and the second is a household earning 120% of AMI (\$90,000 for a household of four). Given these salaries, there is a potential affordability gap of between \$23,850 and \$43,480 for households at 120% AMI and a gap of between \$70,830 and \$95,690 for a household at 100% AMI. (This assumes a 95% loan at a 8% fixed interest rate for 30 years.) However, if the City were to provide the land required at below market value, this gap can be eliminated completely. Since an

exact cost for the land has not yet been determined, it is not possible to know at this time how much of the land cost could be recouped.

TABLE A-7: TERMINAL AVENUE HOUSING PROJECT PROTOTYPE
Small lot single family units @14 units/acre - 1 acre

Number of Units	4	10
Description	2 bed/2 bath	3 bed/2 bath
Unit square feet	900	1,200
Development cost @ \$170 (1)	\$153,000	\$204,000
Land cost (2)	\$100,000	\$100,000
Infrastructure Costs (3)	\$ 52,750	\$ 52,750
Total Unit Cost	\$305,750	\$356,750
Household Size	3	4
Maximum price to household at 120% median household income (3)	\$281,900	\$313,270
Gap	\$ 23,850	\$ 43,480
Maximum price to household at 100% median household income (4)	\$234,920	\$261,060
Gap	\$ 70,830	\$ 95,690
Total Funding Gap		
Households at 120% of median household income	\$ 95,400	\$ 434,800
Households at 100% of median household income	\$283,320	\$1,240,220
Average Gap (Subsidy) per Household		
Households at 120% median household income (approximately \$90,000)		\$37,870
Households at 100% median household income (approximately \$75,000)		\$88,590

Source: Vernazza Wolfe Associates, Inc.

Notes:

- (1) Eden Housing Adams Avenue project (Fremont).
- (2) Land is currently owned by the City. This estimate is derived from current market values in Belle Haven. Cost estimate to be refined in conjunction with the City.
- (3) Infrastructure costs include \$27,750 off-sites and amortized purchase price of a house (estimated at \$350,000). Costs provided by City.
- (4) Based on ability to pay. See chart in this Appendix.

5. WORK PROGRAM FOR HAMILTON AVENUE HOUSING

Tasks

- Assess the school and other fiscal impacts of the housing project proposal.
- Undertake a market analysis to identify demand.
- City to market BMR waiting list to target groups.
- Establish selection criteria for use with the City's existing BMR waiting list. Establish priorities for municipal workers, teachers and firefighters.
- Assess the use of BMR vs. RDA funds to finance the affordability gap. Identify/assess additional funding sources. Perform additional feasibility analysis as needed. Identify possible lenders.
- Develop criteria for the number and types of housing units and their relationship to the adjacent park and railroad tracks, as well as to the housing across the street. Develop visual examples of the types of housing that could be developed.
- Discuss the project criteria with Belle Haven Neighborhood to review ideas, gather ideas for the RFQ, and test feasible density levels.
- Conduct a focus group with developers prior to finalizing the RFQ. One of the purposes of this focus group will be to find out how the developers view the market – what are their perceptions regarding housing needs and demand.
- Issue Developer RFQ.

This RFQ should contain the following:

- ⇒ Statement of desired proportion of affordable vs. market rate units.
- ⇒ Request for developer's recommendations regarding the mix of affordable and market rate units.
- ⇒ Resale controls.
- ⇒ Design requirements.
- ⇒ Marketing requirements.

- ⇒ Included within the selection criteria will be a statement that the City intends to avoid providing windfall profits to the potential developer from sales of market rate units.
 - ⇒ City subsidy limitations.
 - ⇒ Developer qualifications, including financial capacity and experience with similar projects.
- Review and rank developer responses, perform due diligence, conduct interviews, and select developer. Include neighborhood representatives in the developer selection process.

Hamilton Avenue Work Program Schedule

TASKS AND DELIVERABLES	RESPONSIBILITY	CONSULTANT HOURS	SCHEDULE OF DELIVERABLES
HAMILTON AVENUE			
School and Fiscal Impact Assessments.	Staff and Planning Consultant	10	End of Week 4
Market analysis.	Planning Consultant	40	End of Week 6
Market BMR waiting list to target groups.	Staff		End of Week 6
Selection criteria for use with the City’s existing BMR waiting list.	Staff		End of Week 6
Memo on Funding sources and Financial Feasibility.	Planning Consultant	15	End of Week 8
Project criteria and visual examples.	Design Consultant	40	End of Week 8
Neighborhood Outreach Meeting	Staff and Consultants	10	End of Week 10
Focus group with developers prior to finalizing the RFQ.	Staff and Consultant	10	End of Week 12
Issue Developer RFQ.	Staff and Consultant	20	End of Week 14
Review responses and select developer.	Staff and Consultant	30	End of Week 20
TOTAL CONSULTANT HOURS		175	

6. WORK PROGRAM FOR OAK GROVE PLAZA

Phase 1 Tasks

- Consider additional prototypes, including the following:
 - ⇒ Mixed use (retail on the ground floor).
 - ⇒ Adding an additional story in height.
 - ⇒ Providing additional parking for downtown needs. This could gain merchant/owner support.
 - ⇒ Locating parking fully underground, possibly including under adjacent streets.
 - ⇒ Provide two levels of parking underground.
- Develop cost assessments for the additional prototypes.
- Consider parking issues, including the use of underground parking for downtown employees via parking permits and lowering parking requirements to one space per two-bedroom unit in Oak Grove Plaza.
- Consider ways to improve the design and the downtown environment such as adding some public areas around the project, sidewalk improvements, and possible street closure.
- Develop criteria for the number and types of housing units in relationship to other downtown development. Develop visual examples of the types of housing that could be developed.
- Assess the school and other fiscal impacts of the housing project proposal.
- Conduct a focus group with developers prior to finalizing the RFQ. One of the purposes of this focus group will be to find out how the developers view the market – what are their perceptions regarding housing needs and demand.
- Undertake a market analysis to assess demand.
- City to market BMR waiting list to target groups.
- Identify/assess funding sources, including low-income tax credits and HOME funds. Identify possible lenders. Perform additional feasibility analysis as needed.

- Conduct planning and design charette with the City Council.
- Develop an “outreach” activity using the project criteria and graphic examples to inform merchants, property owners, and residents. Work with Chamber of Commerce to inform merchants about project.
- Establish selection criteria for use with the City’s existing BMR Waiting List. Establish priorities for municipal workers, teachers and firefighters.

Phase 2 Tasks

- Issue Developer RFQ.

This RFQ should contain the following:

- ⇒ Statement of desired proportion of affordable vs. market rate units.
 - ⇒ Request for developer's recommendations regarding the mix of affordable and market rate units.
 - ⇒ Resale controls.
 - ⇒ Design requirements.
 - ⇒ Marketing requirements.
 - ⇒ Included within the selection criteria will be a statement that the City intends to avoid providing windfall profits to the potential developer from sales of market rate units.
 - ⇒ City subsidy limitations.
 - ⇒ Developer qualifications, including financial capacity and experience with similar projects.
- Review and rank developer responses, perform due diligence, conduct interviews, and select developer.

Oak Grove Plaza Work Program Schedule

TASKS AND DELIVERABLES	RESPONSIBILITY	CONSULTANT HOURS	SCHEDULE OF DELIVERABLES
OAK GROVE PLAZA			
Memo on additional prototypes.	Staff, Planning and Design Consultants	10	End of Week 4
Cost estimates of additional prototypes.	Planning and Design Consultants	5	End of Week 4
Parking issues memo.	Staff and Design Consultant	5	End of Week 4
Project criteria and visual examples,	Staff and Design Consultant	10	End of Week 4
School and Fiscal Impact Assessments.	Staff and Planning Consultant	10	End of Week 8
Market analysis.	Planning Consultant	40	End of Week 10
Market BMR waiting list to target groups.	Staff		End of Week 6
Selection criteria for use with the City's existing BMR waiting list.	Staff		End of Week 10
Memo on Funding sources and Financial Feasibility.	Planning Consultant	15	End of Week 12
Conceptual sketch site plans, design, elevations and renderings.	Design Consultant	40	End of Week 12
Conduct design charette with City Council.	Staff and Consultants	10	End of Week 13
Conduct two or three outreach meetings.	Staff and Consultants	20	End of Week 14
Issue Developer RFQ.	Staff and Consultant	20	End of Week 18
Review responses and select developer.	Staff and Consultant	30	End of Week 28
TOTAL CONSULTANT HOURS		215	

7. DEFINITION OF TERMS

TERM	DEFINITION
Affordable Housing	Affordable housing is defined as housing that costs no more than 30% of gross income for renters and 33% of gross income for owners. Standards for very low-, low-, and moderate-income households are developed by the U.S. Department of Housing and Urban Development (HUD) on an annual basis for San Mateo County and are adjusted for household size.
Affordability Gap	The difference between what a housing unit costs to develop (or develop and operate in the case of rental housing) and the amount a household can pay in order for the housing unit to be affordable. (See above definition for affordable housing.)
AMI	Area Median Income as defined by HUD. It is assumed that half of all households earn incomes above this figure, and half of all households earn below this figure. The AMI is based on a household figure of four. This income figure is adjusted annually, and the same number is used by all cities in San Mateo, San Francisco, and Marin Counties.
BMR Housing Program	This is Menlo Park's major housing program to encourage below market rate housing development. It includes two program elements – BMR inclusionary units and the BMR Housing Reserve Fund.
BMR Unit	This term can be applied to both rental and for-sale housing and refers to the below market rate housing units created under the Inclusionary Housing component of the BMR Housing Program.
BMR or Housing Reserve Fund	Residential and commercial developers contribute to the Below Market Rate Fund, based on guidelines developed for the BMR Housing Program. This fund provides the major source of housing funds available for BMR housing.
FAR	The FAR, or Floor Area Ratio, means the maximum permitted ratio of the total square footage of the gross floor area of all buildings on a lot to the square footage of the lot.
Nexus Study	A Nexus Study is a research report that estimates the amount of new housing that is required as a consequence of commercial development. This housing demand figure is translated into development costs and used as a justification for a fee structure, since a Nexus Study must demonstrate that there is a relationship between fees charged and the demand for additional affordable housing units.
PAL	Purchase Assistance Loan for first-time home buyers. This is a Menlo Park program funded with the Housing Reserve Fund.
RFQ	The Request for Qualifications (RFQ) process is used to select potential developers and consultants.

SRI	Stanford Research Institute is one of Menlo Park's major private employers. SRI is embarking on a master planning effort which may provide additional housing sites.
Zoning Designations	<p>Zoning designations define potential land uses and development intensities. Each parcel in Menlo Park has a zoning designation. Some of the zoning designations related to the Affordable Housing Action Plan discussion are listed below. See the City of Menlo Park Zoning Ordinance for a complete listing and description of zoning designations.</p> <ul style="list-style-type: none"> C-1 Administrative and Professional District C-1-A Administrative and Professional District, Restrictive C-2 Neighborhood Shopping District C-2-A Neighborhood Shopping District, Restrictive C-3 Central Commercial District C-4 General Commercial District M-2 General Industrial District R-3 Medium Density Residential District R-3-C Medium Density Residential & Office District R-4 High Density Residential District