

# ATTACHMENT F

## DENSITY BONUS REPORT

4350 El Camino Real

Revised October 25, 2019

### Summary

The intent of this report is to outline the project's relationship to the state and local density bonus regulations and present the basis from the applicant's perspective.

The project is a 47-unit multiple-family condominium building to replace the Unocal 76 gas station at 4350 El Camino Real. The project includes seven affordable housing units and qualifies for at least a 35 percent density bonus and two development incentives. The project relies on two development incentives: an "on-menu" building height incentive, and an off-menu incentive for a reduction in parking space back-up distance. The project also applies parking space alterations consistent with state and local density bonus regulations.

The remainder of this report summarizes the project density, dwelling unit sizes and make up, costs to provide the affordable units, density bonus, development incentives and the applied parking alteration.

### Project Density Table

PROJECT DENSITY	
<b>Lot Size</b>	28,562 square feet, or 0.656 acres
<b>General Plan - Thoroughfare Commercial</b>	38 units per acre
<b>Zoning - Commercial Thoroughfare</b>	38 units per acre
<b>Allowed Density - Base Density</b>	25 units
<b>Affordable Housing Requirement (15%)</b>	4 units
<b>Affordable Housing Provided (28%)</b>	4 Moderate Income, 3 Very-Low Income
<b>Density Bonus Units</b>	22 units
<b>Total Number Dwelling Units</b>	47 units

**Dwelling Unit Summary Table**

<b>DWELLING UNIT SUMMARY</b>			
<b>UNIT TYPES</b>	<b>Number</b>	<b>Size</b>	<b>Notes</b>
<b>1 Bedroom - Total</b>	10	580 to 774 sf	
<b>2 Bedroom - Total</b>	32	767 to 1,449 sf	
<b>3 Bedroom - Total</b>	5	1,023 to 1,675 sf	
<b>Moderate Income (4 total, 16 percent)</b>	2	1-Bedroom (764 sf and 580 sf)	Ground and Third Levels
	1	2-Bedroom (767 sf)	Second Level
	1	2-Bedroom (767 sf)	Third Level
<b>Very-Low Income (3 total, 12 percent)</b>	1	1- Bedroom (718 sf)	Ground Level
	1	1-Bedroom (580 sf)	Second Level
	1	1-Bedroom (580 sf)	Fourth Level

**Proposed Affordable Housing Units and Costs**

The project provides four Moderate Income and three Very-Low Income units in representative sizes for their type. The affordable units are dispersed throughout the project located on the Ground, Second, Third and Fourth levels. The affordable units are indistinguishable by design.

The City's Density Bonus Regulations handout requests applicant's to provide information concerning the "identifiable and actual cost reductions" that result from the requested incentives. Even though the City of Los Altos has the burden to demonstrate that a requested incentive or waiver would not result in an identifiable and actual cost reduction, rather than the applicant's burden to demonstrate that it would, we provide the following cost analysis for the City's information.

The project recovers \$2,516,176 against a gross cost of \$4,280,400 resulting in a net loss of value of \$1,764,224 to produce the affordable housing units. The gross cost of the proposed affordable housing units is \$900 per square foot for the net living area including hard, soft and land value in current dollars. The net living area of the seven affordable units is 4,756 square feet. Thus, the gross cost of providing affordable housing units is \$4,280,400. Due to rising construction costs it is reasonable to expect

that such costs will be at least six to eight percent higher when the project is constructed in 2020 or 2021.

The restricted value of the three, one-bedroom, Very-Low Income units is \$448,964 (\$149,649 each). The restricted value of the two, one-bedroom, Moderate Income units is \$960,510 (\$480,255 each). The restricted value of the two, two-bedroom, Moderate Income units is \$1,106,702 (\$553,351 each).

An advantage of providing affordable one- and two-bedroom units is that they serve smaller households in the one- to three-person range. Such units are intrinsically more affordable by their smaller size. And it should be pointed out that the project is 90 percent one- and two-bedroom units.

### **Affordable Housing and Density Bonus**

Under the General Plan and Municipal Code the project is required to provide a base density is 25 housing units and four affordable housing units (15 percent). By local Code a project must designate a majority of its affordable units as Moderate Income and the remainder at the Low or Very-Low Income level. This equates to a requirement of three Moderate Income units and one Very-Low or Low Income unit. The project provides four Moderate Income units and three Very-Low Income units with an overall affordable percentage of 28 percent, exceeding the City's requirement by 13 percent.

The three Very-Low Income units, equaling 12 percent of the base units, qualifies the project for at least a 35 percent density bonus under state and local regulations. The minimum density bonus for the Low-Income units allows at least nine additional market-rate units for a minimum total of 34 units. Since the project provides three additional affordable housing units over the minimum City requirement an additional density bonus is requested to provide for a total of 47 units. From a developer's perspective the number of overall project units is necessary to reduce the risk and provide a safety net because of the very high cost of land, the very high cost of construction trending even higher over time, and the uncertain nature of the housing market in the future when the project units will be delivered.

The City's affordable housing regulations require a split in income types that when combined with the state law reduces the effective density bonus percentage in any single category. In accordance with Section 65915 (r) of the Government Code, the density bonus regulations shall be interpreted liberally in favor of producing the maximum number of units possible. Since the affect of the City's affordable housing regulations reduces the overall density bonus otherwise available by state law by splitting the income types of the required affordable units, the qualifying on-menu height incentive allows the project to make up the minimally afforded nine density bonus units and the remainder of the project otherwise maximizes the number of units within the permitted building envelope, which yields generally smaller and more intrinsically affordable market-rate units.

We feel this approach helps the community achieve more affordable housing units which is a benefit in itself in addition to more and more affordable market rate units that helps the City meet its overall housing goals with the state. The following section outlines the project's development incentives and the actual and specific cost reductions by granting such incentives.

### **Incentives for Height and Parking Space Back-Up**

With the three proposed Very-Low Income units, equaling 12 percent of the base units, the project qualifies for two development incentives under state and local regulations. The project requires two incentives. The first incentive is a local "on-menu" height incentive to add 11 feet of height to the project. The second is to allow a 24-foot back-up distance for the parking spaces in the parking garage, which is an off-menu incentive.

The height incentive allows the fifth floor at an overall height of 56 feet (45 feet plus 11 feet). As designed the project uses only nine feet of the allowed 11 feet for an overall building height of 54 feet. This minimizes the overall height of the building by two feet over what is allowed by the on-menu incentive. Even though the City has predetermined that its on-menu height incentive does not have a specific adverse impact, the project's two foot reduction in potential height further minimizes potential impacts from the height incentive. The height incentive is necessary to allow the project to make up floor area dedicated to the affordable housing units and to achieve nine additional units, which is exactly equal to the nine density bonus units minimally allowed by local code, and to defray cost to provide the affordable housing units.

The on-menu fifth floor equates to an actual and specific project cost reduction to the project by allowing a location for the required nine density bonus units and by providing an associated increase in project floor area and revenue thereby helping to make up the cost differential to provide the affordable housing units as follows:

- A. The gross cost of building a conforming four-story building is \$40,085,100 assuming \$900 per square foot for hard and soft costs for 44,539 square feet of living area;
- B. The gross cost of building the five-story building is \$49,417,200 assuming \$900 per square foot for hard and soft costs for 54,908 square feet of living area;
- C. The gross cost of building the fifth floor is \$9,332,100 assuming \$900 per square foot for hard and soft costs for 10,369 square feet of living area;
- D. The gross revenue of the fifth floor is \$12,961,250 assuming a sales cost of \$1,250 per square foot for the 10,369 square feet of living area;
- E. The gross profit of the fifth floor is \$3,629,150 subtracting the gross cost from the gross revenue of the fifth floor; and

- F. The net profit of the fifth floor is \$1,864,926 when subtracting the net cost (or lost value) of \$1,764,224 to the developer to provide the seven affordable housing units.

It should be underscored that the aforementioned analysis of the actual and specific project cost reduction by the on-menu height incentive is conservative from a developer's perspective given the trend of rising construction costs and the uncertainties of the housing market since the project is ultimately delivered in several years. The fifth floor helps increase the number of units to an appropriate threshold thereby reducing the developer's risk and ensuring the project's narrow margin of return.

The back-up distance incentive to allow 24 feet versus the required 26 feet allows for a more economical parking garage by reducing its overall dimensions by four feet in the east/west direction and two feet in the north/south direction, which reduces construction costs of soil removal and concrete and costs of other building materials. The reduced back-up dimension is supported by the project's transportation report. The back-up distance incentive equates to an unquantified actual and specific project cost reduction.

Government Code Section 65915 (d) (1) provides that a "city, county, or city and county shall grant the concession or incentive requested by the applicant unless the city, county, or city and county makes a written finding, based upon substantial evidence" that (a) the incentive does not result in identifiable and actual cost reductions; (b) the incentive would have a specific adverse impact on public health, safety, the physical environment, or historic resources; or (c) the incentive would be contrary to state or federal law.

Government Code Section 65915 (d) (4) provides that the city, county, or city and county shall bear the burden of proof for the denial of a requested incentive. The requested height incentive would not have a specific, adverse impact, upon health, safety, or the physical environment since the height incentive is a previously determined appropriate on-menu local incentive. The reduced back-up dimension for the parking spaces is supported by a professional transportation report (Traffic Report by Hexagon Transportation Consultants, Inc., dated June 21, 2019). Neither requested incentive is contrary to state or federal law. The traffic report is provided by reference in the project's environmental Initial Study/Mitigated Negative Declaration.

### **Parking Alteration**

This project uses the parking alteration allowed by Government Code Section 65915 (p) (2) and by Los Altos Municipal Code (LAMC) Section 14.28.040 (G) (2) (b). The project provides 84 parking spaces which meets the requirement of 84 spaces required by the Govt. Code. Under the LAMC the project far exceeds the minimum parking of 45 parking spaces (0.5 spaces per bedroom) since the project includes a maximum number of Very-Low Income units and is located adjacent to a major transit stop.