



Date: August 8, 2023

Honorable Mayor and Council Members:

Author and title: David Tirman, Planning Intern

Title: **High Altitude Fitness (HAF) Parcel Housing Concepts**

Jen Callaway, Town Manager

Recommended Action: The purpose of this discussion topic is to provide the Town Council with an overview of potential housing concepts for the High Altitude Fitness (HAF) parcel and an opportunity for the Council to provide feedback and direction to Town staff on next steps. Further, staff recommends that Council direct staff to commence the land use permit entitlement process and return at a future date with a complete proposal for the entitlements.

Discussion:

Introduction & Background

A strategic focus of the Town Council two-year work plan is to actively support the development of workforce housing. Work plan Task 4.1 calls for housing development at the parcel deeded to the Town by the High Altitude Fitness project (APN 018-580-052 on Edmunds Drive). The work plan encourages collaboration with regional partners to engage a developer to create for-sale, deed-restricted housing on this public agency-owned HAF land. The task also includes research, supplemental due diligence, and financial feasibility work that expands upon the Town's prior SB2 site analysis from 2021. This memo addresses Task 4.1 by exploring the feasibility of housing concepts on the HAF parcel.

The HAF parcel presents a unique opportunity to test ways to implement higher-density housing types on land traditionally considered more of a single-family home site. As the staff report concluded during the SB2 housing grant process in 2021, the HAF parcel is a prime infill housing opportunity at a location that is highly accessible to pedestrians and bicyclists alike, helping to reduce automobile dependence and related GHGs. The parcel is also close to an array of goods and services located on Truckee's main street, Donner Pass Road. This includes proximity to many small and larger size employers such as the Truckee Donner Public Utility District (TDPUD), the School District, and the Tahoe Forest Hospital District.

Key issues and questions for the Council to consider are as follows:

1. **Plan Alternatives:** Which, if any, of the conceptual site plan alternatives is preferred? Are there other alternatives the Council would like to explore?
2. **Land Value:** How should the value of the Town-owned land be optimized and leveraged to support a housing project (i.e., contribute the land, provide a low-interest loan for the land, etc.)? If the Council supports a land contribution, staff recommends that the Council include an affordable and/or workforce housing deed restriction as a requirement of any contribution.
3. **Rental or For-Sale Housing:** Is there a preference for the housing to be rental or for-sale dwelling units (DU) on the HAF parcel?

Housing Needs Assessment

The *Truckee North Tahoe Regional Workforce Housing Needs Assessment* of 2016 provided the first comprehensive report on the housing needs for our area. The report highlighted the region's unmet housing needs, including a shortage of one-and two-bedroom dwelling units (DU). The 2021 report update indicated that over 80% of our regional housing stock was single-family residential, whereas "Missing Middle" type housing accounted for roughly 10% of the regional housing stock, with Missing Middle referring to duplexes, triplexes, fourplexes and other such housing types that fall in the middle between single-family dwellings and more significant multi-family/apartment buildings.

Site Location & Context

The HAF parcel, located on Edmunds Drive near Meadow Park and Donner Pass Road (see FIG 1), was deeded to the Town during the approval of the High-Altitude Fitness project. The undeveloped parcel is adjacent to multi-family dwellings to the north and south, single-family residential to the east, and a forested area to the west (see FIG 2). As previously highlighted, the parcel is within short walking and bicycling distance of the commercial outlets and public services on Donner Pass Road. The parcel topography includes a gentle north-to-south slope, which provides optimal solar orientation. All major utilities serve the site from Edmunds Drive.

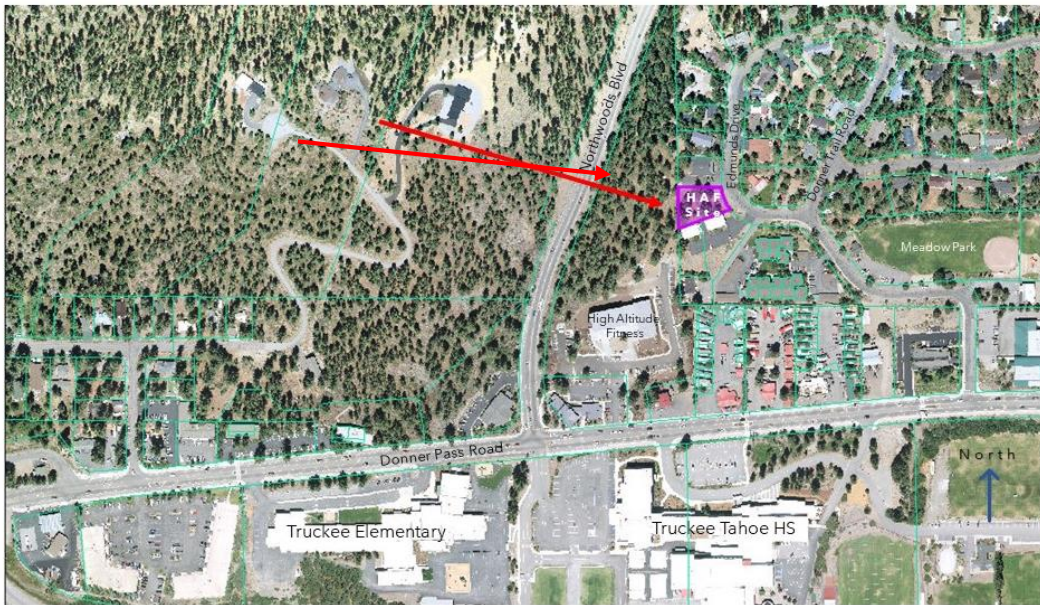


FIG. 1: Aerial image of HAF site location



FIG. 2:

Panorama of HAF site viewed from Edmunds Drive towards west

Regulatory: Zoning & Code Considerations

The 2040 General Plan included an RM-24 zoning designation (Residential Multi-family at 24 units/acre) for the HAF parcel. This zoning designation allows the .32-acre site to accommodate up to 8 dwelling units ($24 \text{ units/acre} \times .32 \text{ acres} = 8 \text{ DU}$). Affordable housing on the parcel would be eligible for a 50% housing density bonus, equating to an additional 4 DU ($8 \text{ DU} \times 50\% = 4 \text{ DU}$). This results in a potential for up to 12 DU on the parcel, with increased affordability requirements.

Anticipated code constraints for the parcel would include 20 ft. setbacks from the front and rear property lines and 10 ft. setbacks on the parcel sides. Building height would be restricted to 35 ft., allowing up to 3.5 levels. Regarding parking, the Code requires a one-bedroom DU to have 1.5 parking spaces and a two-bedroom DU to have two parking spaces. In addition, there's a guest parking requirement of 25% of the total required DU parking (*i.e., if 12 spaces are needed for the DU, then an additional three spaces are required for guest parking*).

A Planned Development (PD) approach to the parcel would allow for added flexibility regarding site planning and layout. A PD could include modified building setbacks, height, and parking standards in response to unique site conditions helping to optimize the planning of the HAF site.

Housing Precedents

The new General Plan RM-24 zoning land use designation for the parcel, allowing for higher density residential, ushers in a unique opportunity to plan for alternative housing types known as Missing Middle housing. Missing Middle is defined as a range of residential-scaled buildings with multiple units compatible in scale and form with detached single-family homes. Missing Middle housing examples include duplexes, triplexes, fourplexes, and other similar, more diverse housing types. Missing Middle housing is also typically located in walkable neighborhoods like conditions around the HAF parcel. These housing types were “*Missing*” because they were often illegal to build due to exclusionary zoning that favored single-family residential and “*Middle*” because they sat in the middle of a spectrum between detached single-family homes and mid-rise to high-rise apartment buildings (see FIG 3). In recent years, the Missing Middle definition has broadened to reference not only housing types but also individuals who earn well above area median income (AMI) yet cannot afford to purchase market-rate housing.



FIG 3: Examples of Missing Middle Housing types

Alternatives

The analysis of the HAF parcel centers around three site plan alternatives. Planning objectives for all three options included maintaining residential form and scale, orienting living spaces towards the south to maximize natural daylight and wooded area to the west for better views and placing the drive aisle and parking in proximity to the existing surface parking of the neighboring apartment building to the north. Notably, the site plans sought to optimize density while considering neighborhood context, anticipated code constraints, and adjusted standards related to parking and setbacks.

Alternative 1

Alternative 1 yields a total of 10 DU within 2, three-story fiveplexes, each containing 5 two-bedroom DU (see FIG 4). The ground level would include garage parking (one space/unit) and a two-bedroom DU (see FIG 5). The two upper stories would consist of 4, two-bedroom DU (2 on each level). The units would be approximately 1,000 sf each. The garage parking would also include storage space. Anticipated zoning and code parameters are outlined in FIG 6.



FIG. 4: Alternative 1 Conceptual Site Plan

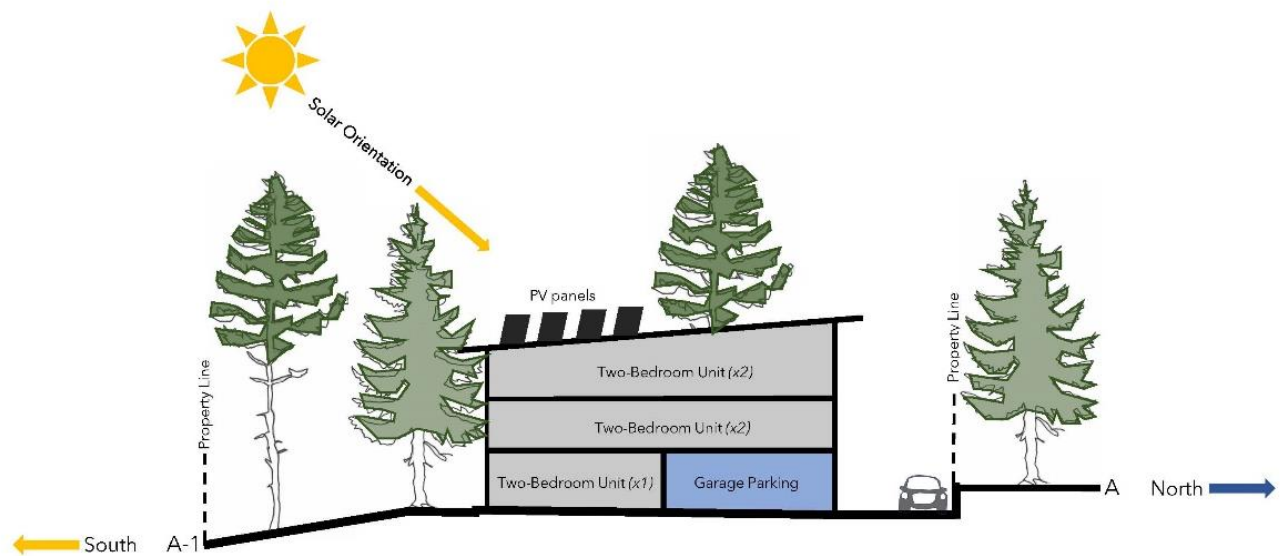


FIG. 5: Alternative 1 Conceptual Cross Section

ZONING & CODE PARAMETERS	
Residential Zoning District	RM-24
Parcel Size	.32 Acre
Allowable Density	8 Dwelling Units (DU)
Density Bonus	50%
Allowable Density w/Density Bonus	12 DU
Coverage	70% Max
Height	35 ft. Max (up to 3.5 Levels)
Setbacks	20 ft. Front & Back / 10 ft. Sides
Parking Requirement	2 Spaces w/1 per DU in Garage 25% Guest Parking
Planned Unit Development (PUD)	Customized Standards (i.e. Parking, etc.)
ALTERNATIVE 1	
10 DU	~1,000 sf / DU
Bldg A: 5-Two Bedroom DU	4.5 DU Equivalents (5 DU x .9)
Bldg B: 5-Two Bedroom DU	4.5 DU Equivalents (5 DU x .9)
Parking	1 Garage Space/DU 2 Guest Spaces
Coverage	40% Buildings, 16% Drive & Walkways
Height	35 ft. (3 Levels)

FIG. 6: Alternative 1 anticipated zoning and code parameters

Alternative 2

Alternative 2 yields a total of 15 DU within three residential buildings. Bldg. A contains 1, one-bedroom DU plus garage and 2, two-bedroom DU on the upper levels. The two larger Bldgs. B & C would each have garage parking and 2, one-bedroom DU on the ground level with 2 two-bedroom DU on each upper-level floor (see FIG 7). The one-bedroom DU would be approximately 525 sf each, whereas the two-bedroom DU would have about 1,000 sf each. Like Alternative 1, the garage parking would include storage. Note that the 15 DU of Alternative 2 exceeds the 12 DU allowed by the RM-24 zoning designation with a density bonus, which would increase the affordability requirements for the parcel. Anticipated zoning and code parameters are outlined in FIG 8.



FIG. 7: Alternative 2 Conceptual Site Plan

ZONING & CODE PARAMETERS	
Residential Zoning District	RM-24
Parcel Size	.32 Acre
Allowable Density	8 Dwelling Units (DU)
Density Bonus	50%
Allowable Density w/Density Bonus	12 DU
Coverage	70% Max
Height	35 ft. Max (up to 3.5 Levels)
Setbacks	20 ft. Front & Back / 10 ft. Sides
Parking Requirement	1.5 Spaces/DU for One Bedroom DU 2 Spaces/DU for Two Bedroom DU 25% Guest Parking
Planned Unit Development (PUD)	Customized Standards (i.e. Parking, etc.)
ALTERNATIVE 2	
15 DU	~525 sf/One-Bedroom DU, ~1,000 sf / Two-Bedroom DU
Bldg A: 3-One Bedroom DU	2.01 DU Equivalents (3 DU x .67)
Bldg B: 2-One Bedroom DU, 4-Two Bedroom DU	1.34 DU Equivalents (2 DU x .67), 3.6 DU Equivalents (4 DU x .90)
Bldg C: 2-One Bedroom DU, 4-Two Bedroom DU	1.34 DU Equivalents (2 DU x .67), 3.6 DU Equivalents (4 DU x .90)
Parking	1 Garage Space/DU 3 Guest Spaces
Coverage	46% Buildings, 24% Drive & Walkways
Height	35 ft. (3 Levels)

FIG. 8: Alternative 2 anticipated zoning and code parameters

Alternative 3

Alternative 3 yields 10 DU (all two-bedroom) plus a garage located within a single residential building (Bldg. A) (see FIG 9). The ground level would include one garage parking space per unit, storage space, and 2, two-bedroom DU. The upper two levels of Bldg. A would consist of 4, two-bedroom DU on each floor. The two-bedroom DU would be approximately 1,000 sf each. The footprint of the Alternative 3 building would be somewhat like the existing apartment building on the lot north of the HAF parcel. Zoning and code parameters are outlined in FIG 10.



FIG. 9: Alternative 3 Conceptual Site Plan

ZONING & CODE PARAMETERS	
Residential Zoning District	RM-24
Parcel Size	.32 Acre
Allowable Density	8 Dwelling Units (DU)
Density Bonus	50%
Allowable Density w/Density Bonus	12 DU
Coverage	70% Max
Height	35 ft. Max (up to 3.5 Levels)
Setbacks	20 ft. Front & Back / 10 ft. Sides
Parking Requirement	2 Spaces w/1 per DU in Garage 25% Guest Parking
Planned Unit Development (PUD)	Customized Standards (i.e. Parking, etc.)
ALTERNATIVE 3	
10 DU	~1,000 sf / DU
Bldg A: 10-Two Bedroom DU	9 DU Equivalents (10 DU x .9)
Parking	1 Garage Space/DU 2 Guest Spaces
Coverage	32% Buildings, 21% Drive & Walkways
Height	35 ft. (3 Levels)

FIG. 10: Alternative 3 anticipated zoning and code parameters

Preliminary Financial Feasibility Analysis

A high-level back-of-the-envelope (BOE) financial model (AKA proforma) tested the economic feasibility of the three alternatives. The goal was to find the right combination of conceptual modeling assumptions that would result in project financial feasibility. The financial models weighed estimated project costs against anticipated project revenues. One BOE scenario assumed all DU as rental units and the other scenario assumed all DU as for-sale units.

For the rental scenario, assumptions were made for rent and construction cost. For modeling purposes, the land value was assumed to be a contribution to the project. The rental scenario BOE proforma summary reflects Alternative 1 (FIG. 11). Rental rates were based on Truckee market-rate comps with an added premium for future cost escalation. Construction costs were expressed on a square-foot basis. Soft costs, including architecture, engineering, permitting, and financing fees, were factored as percentages of overall costs. Also crucial to the financial feasibility of a rental unit scheme was a developer's "hold" period of the property.

Once a project is completed, a typical ownership hold period is five years. Five years is usually deemed sufficient to stabilize the rental operation, revenue stream, payment of financing obligations, etc. This also helps determine project sales price based on an equation that considers operating income and estimated property value, known as a "cap rate." Market cap rates vary from project type. The assumed cap rate (year one operating revenue/estimated sales price) of 5% is within the current range of 4 to 10% cap rates for multi-family residential rental property. Lower cap rates, such as the 5%, reflect lower risk and higher demand aligning with current market conditions in Truckee. Significantly a change to any one variable could impact the project's financial feasibility. For example, if construction costs are higher yet rental rates remain the same, this would negatively impact the proforma.

SCENARIO 1 RENTAL PROPERTY	
Assumptions	
<u>Revenue</u>	
Rental:	\$2,975/month for Two-Bedroom
Unit	
Unit	\$2,250/month for One-Bedroom
<u>Costs</u>	
Construction:	\$440/sf
Land:	\$1
<u>Timing</u>	
Pre-development:	9 months
Construction:	12 months
Lease-up:	3 months
Exit Month (Sale):	Month 72
Cap Rate*:	5%
Summary	
Development Cost:	\$6,584,935 (\$658,494/DU)
Net Sale Proceeds:	\$6,715,656
Net Profit:	\$245,146
*Cap rate = year 1 operating revenue/anticipated sales price	

FIG. 11: Preliminary market-rate rental property proforma summary

Key assumptions were made in the for-sale scenario related to anticipated sales revenue and construction costs. The land was also assumed as a contribution to the housing project. As with the rental plan, timing assumptions also impact the proforma as longer construction schedules increase costs versus shorter time frames. The same applied to the sales pace and timing for sales completion. The for-sale scenario proforma summary reflected below was for Alternative 2 (FIG. 12). Sales price/square foot was based on Truckee area comps. Square foot construction costs were slightly higher than costs in the rental scenario, reflecting a higher level of finish. As with the rental scenario, a change to any one variable could impact the financial feasibility of the project.

SCENARIO 2 FOR SALE PROPERTY

Preliminary Assumptions

Costs

Construction:	\$510/sf
Land (contribution):	\$1

Sales Revenue

Sales Price/SF:	\$745/sf market-rate (equates to \$745,000/DU)
	\$650/sf affordable (equates to \$650,000/DU)

Timing

Pre-development:	9 months
Construction:	12 months
Sales:	6 months

Summary

Development Cost:	\$7,731,3635
Net Sale Proceeds:	\$8,616,960
Estimated Net Profit:	\$885,592

FIG. 12: Preliminary for-sale property proforma summary

Summary and Preliminary Conclusions

To reiterate, below are key issues and questions for the Council to consider regarding the HAF parcel, followed by some general thoughts stemming from this analysis.

1. Plan Alternatives: Which, if any, of the conceptual site plan alternatives is preferred? Are there other alternatives the Council would like to explore?
2. Land Value: How should the value of the Town-owned land be optimized and leveraged to support a housing project (i.e., contribute the land, provide a low-interest loan for the land, etc.)? If the Council supports a land contribution, staff recommends that the Council include an affordable and/or workforce housing deed restriction as a requirement of any contribution.
3. Rental or For-Sale Housing: Is there a preference for the housing development to be rental or for-sale dwelling units (DU) on the HAF parcel?

The current RM-24 zoning designation would allow up to 8 DU on the site. An affordable housing project component would allow a density bonus of 50% equating to 12 DU for the parcel. Although two of the alternatives reflect 10 DU each, both could physically accommodate up to 12 DU with adjustments to the unit mix. For the 15 DU alternative (Alternative 2), the Town could consider a zoning amendment to accommodate the additional DU above the current zoning cap of 12 DU or potentially increase the affordability requirement of the parcel to allow for a higher density. All three options demonstrate that Missing Middle housing types are feasible and could be physically accommodated on the parcel in a scale and form compatible with that of the neighborhood. Breaking up building mass would also be important, which Alternatives 1 & 2 demonstrate to a greater degree than Alternative 3.

In terms of entitlements for the HAF parcel, a Town-initiated entitlement process prior to sale or partnership with a developer would likely render the property more attractive to the development community as it could significantly reduce cost and risk. Entitled land would also provide more upfront certainty as to the type of housing that could be developed and enhance the value of the land as an asset to the Town. Entitlements that include a greater degree of flexibility for site planning and layout and certainty regarding overall DU count would also be a plus. Because of these benefits, staff recommends that the Council direct staff to commence the land use entitlement process and return at a later date with

a complete proposal that addresses all aspects of the process including coordination with a development team.

Regarding whether best as a rental property or for-sale development, there are pros and cons to either approach. Rental income would be ongoing and increase over time however along with operating costs, whereas sales revenue would be more of a finite occurrence wherein revenue proceeds could be leveraged or invested in other future housing projects.

The HAF parcel presents the Town with a unique opportunity for a potential public-private partnership to create needed Missing Middle housing at a smaller yet impactful scale. The parcel could serve as a model for similar land parcels throughout the Town. The financial structure around the land, such as a contribution of the land at low or no cost to an affordable housing builder/developer or providing a low-interest land loan, would be one of the keys to making an affordable housing project feasible under a public-private partnership scenario.

Priority:

<input type="checkbox"/> Enhanced Communication	<input type="checkbox"/> Climate and Greenhouse Gas Reduction	<input checked="" type="checkbox"/> Housing
<input type="checkbox"/> Infrastructure Investment	<input type="checkbox"/> Emergency and Wildfire Preparedness	<input type="checkbox"/> Core Service

Fiscal Impact: This work has been funded through the Planning Division's General Fund allocation toward a two-month assignment with David Tirman, the Division's summer 2023 intern.

Public Communication: Standard agenda noticing.

Attachments:

Attachment 1 - Presentation slides: Housing Concepts, High Altitude Fitness Parcel