



Date: June 25, 2024

Honorable Mayor and Council Members:

Author and title: Adam Petersen, Senior Planner

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

Jen Callaway, Town Manager

Recommended Action: The purpose of this discussion topic is to reaffirm the preferred Land Use Plan Alternative for the High Altitude (HAF) parcel, the ownership approach (rental vs. for-sale), land valuation that optimizes and leverages a housing project, and to request direction for staff to proceed with a Request for Information (RFI) from qualified firms to provide direction with respect to financing, design, and construction of the land use plan alternative for the HAF parcel housing project.

Discussion:

Introduction

The Town Council evaluated land use plan alternatives, land valuations, and ownership options of the HAF parcel at a meeting on August 8, 2023. The Town did not proceed with entitlement and development efforts following the Town Council's direction in 2023 because of staffing constraints. However, staff did proceed to notice the land for surplus, per California state law. Notice of interest for the surplus land closed in March 2024 with no interested parties identified. With this process concluded and with additional staff capacity, staff is positioned to pursue the HAF parcel development project. Accordingly, staff is returning with the item to request Council's concurrence related to the land use plan, ownership, land valuation, and recommended next steps to proceed with entitlement and development.

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 HAF 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 Town-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.

The Town Council received a report from staff in August 2023 with proposed housing concept alternatives, land valuation approach, ownership options for the HAF parcel, and a request for direction to proceed with entitlements. The following summarizes the key items staff presented to the Council:

- Housing Concept Alternatives:
 - o Alternative 1 – 10 units, one-bedroom units
 - o Alternative 2 – 15 units, five (5) one-bedroom units, 10 two-bedroom units
 - o Alternative 3 – 10 units, one-bedroom units
- Ownership Information:

- A for-sale project generated higher profit than a rental project
- Land Valuation to Optimize and Leverage Housing Development
 - Land Contribution with affordable and/or workforce housing deed restriction
- Entitlements
 - Staff to return at later date with complete proposal addressing all aspects of process including coordination with a development team

The Council requested information with respect to the key topics, and staff's response is provided as follows:

- Housing Concept Alternatives: key considerations in the land use planning concepts
 - Mountain Housing Council identified a lack of one- and two-bedroom units
 - Staff considered construction costs with respect to square footage of units and selected floor plan precedents that would increase the likelihood of a financially feasible project
 - Units provided with one garage parking space and external onsite resident and guest parking
 - Common spaces facilitate landscaping and amenities for units.
- Ownership Options and Affordability Considerations: Pros and cons associated with each option and affordable rental amounts for units
 - For-sale projects have a higher barrier to entry while rentals have lower barrier to entry. However, for-sale projects result in a one-time profit for the Town.
 - Rental projects have high demand, ongoing revenue, but also ongoing operating costs and may be more optimal for workforce housing.
 - 75% of Area Median Income (AMI) rental rate for on one-bedroom is approximately \$1,668/month in 2023
- Land Contribution: Efforts to ensure project is realized
 - Entitlements attract developers/buildings because it reduces uncertainty and entitlement costs
 - Donate land as part of project to developer/builder with deed restriction for affordable and/or workforce housing
 - Subsidize construction costs
- Entitlements: Internal versus external staff and rezoning needs
 - Staff is considering internal versus external consultants for the entitlement process. Regardless, the entitlements would be overseen by Town staff.
 - Internally driven entitlement process would not include architectural design; this approach provides flexibility to a developer/builder to select a design that can ultimately be realized.
 - Staff clarified that the highest intensity land use alternative would likely not require rezoning given density bonus provisions, unit equivalency factors, and density permitted under existing land use provisions.

The Council deliberated on the key topic areas, articulating a desire to meet housing demand in a way that is not speculative with respect to demand and pricing. The Council deliberation resulted in the following direction to staff:

- Target housing AMI range of 60% to 125%.
- Preference for Alternative 2, with the two-bedroom units because that alternative increased options for low-income workers with families.
- Initial desire to proceed with a rental ownership structure but requested additional analysis on options and the depth of subsidies needed to realize a housing project on the site.

Land Use Plan Alternative Confirmation

The Council selected Alternative 2, identified below, as the preferred land use plan for the HAF site. The land use alternatives were developed based upon a housing needs assessment consideration, the site location and context, and regulatory considerations. A detailed analysis of these considerations is contained in the August 8, 2023 staff report, included as Attachment A. Staff requests the Council's concurrence that Alternative 2 remains the preferred alternative.

Alternative 1 – Summary: 10 Dwelling Units						
	No. Dwelling Units	Sq. Ft. Per Dwelling Unit	Unit Type	Parking	Coverage	Height
Building A	5	Two-Bed: 1,000 sf/ unit	Two-Bedroom	1 garage space / dwelling unit 2 guest spaces	40% buildings 16% drive and walkways	35 ft., three-stories
Building B	5					
Total	10 Units					

Alternative 2 – Summary: 15 Dwelling Units						
	No. Dwelling Units	Sq. Ft. Per Dwelling Unit	Unit Type	Parking	Coverage	Height
Building A	3	One-Bed: 525 sf Two-Bed: 1,000 sf	1-One Bedroom 2-Two Bedroom	1 garage space / dwelling unit 3 guest spaces	46% buildings 24% drive and walkways	35 ft., Three-stories
Building B	6		2-One Bedroom 4-Two Bedroom			
Building C	6		2-One Bedroom 4-Two Bedroom			
Total	15 Units					

Alternative 3 – Summary: 10 Dwelling Units						
	No. Dwelling Units	Sq. Ft. Per Dwelling Unit	Unit Type	Parking	Coverage	Height
Building A	10	Two-Bed: 1,000 sf	10-Two Bedroom	1 garage space / dwelling unit 2 guest spaces	32% buildings 21% drive and walkways	35 ft., three- stories
Total	10 Units					

Preliminary Financial Feasibility Analysis – Ownership Type and Land Valuation

To move forward, staff believes additional information from outside consultants is needed to identify an ownership structure and land valuation that both benefits the Town and results in the construction of housing onsite.

Information available for the Council's analysis is the high level, rough, financial analysis prepared in 2023. In 2023, staff evaluated the implications of a for-sale project versus a rental project and found a higher net profit for the Town in a for-sale project. Adjustments to 2023 numbers for 2024 were not conducted because the numbers remain largely unchanged. While the Council leaned toward a rental project in 2023, staff requests the Council's concurrence that this preference remains. For consideration, this site could provide a unique opportunity for a lower income for sale product that does not currently exist in Town and may not be financially viable for private development projects.

The 2023 financial models weighed estimated project costs against anticipated project revenues and determined a higher net profit for the Town in a for-sale project. For the rental scenario, assumptions were made for rent and construction cost. Rental rates were based on Truckee market-rate comparables 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 that affects capitalization rates. A for-sale project has similar timing considerations that also impact the proforma. A longer construction schedule increase costs versus shorter time frames. The same applied to unit absorption rates. Sales price per square foot was based on Truckee area comparables. Square foot construction costs were slightly higher than costs in the rental scenario, reflecting a higher level of finish. However, additional, financial analysis is needed to determine the overall financial implications from the project

Additional financial analysis is also required to determine the magnitude of subsidy to ensure the financial viability of development on the HAF site. For example, in the for-sale and rental scenarios, the land value was assumed to be a contribution to the project. A more comprehensive financial analysis is needed by a qualified firm to determine the depth of the subsidy for a financially viable project. Similarly, additional expertise is needed to understand, plan, and construct a project.

Requested Direction and Summary

Given that additional technical expertise is needed with respect to ownership structure and the magnitude and type of potential subsidies, staff requests the Council's direction to prepare and circulate a Request for Information (RFI) sent to qualified firms to conduct the financial, design, and build analysis of the HAF housing project. Staff would evaluate firms based on their skill, talent, and experience in financing, design, and construction of multi-family housing. This approach will require more time up-front to select a consultant but would result in more certainty in a project being realized on the HAF site.

Planning Division staff would serve as the project managers, overseeing the site planning and entitlements components of the project. A Town-initiated entitlement process prior to the sale or partnership with a developer would reduce costs and risk associated with the entitlement review. 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 dwelling unit 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 later with a complete proposal that addresses all aspects of the process including coordination with a development team.

In summary, this report seeks to:

1. Reaffirm that the Town Council's preferred land use alternative is Alternative 2;
2. Affirm that the preferred ownership type as a rental or for sale project, while directing staff to further evaluate the financial implications of a for-sale versus rental option; and
3. Direct staff to initiate an RFI process for three firms to conduct the financial, design, and building component of the project while staff manages the entitlements.

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.

Public Communication: Standard agenda noticing.

Attachments: August 8, 2023 Town Council Staff Report