Site Policy Strategies
Process & Methods Overview

Getting Started has three major components

- Site Strategies Analysis

- Assistance with Sites Inventory baseline (*not discussed today*)

- Middle Housing Best Practices (*not discussed today*)

+ ADU Policies, Practices + Projections *(not discussed today)*

21 Elements: "Getting Started" Overview

Site Strategies Analysis

- Provides <u>initial assessment</u> of potential strategies for RHNA 6

- Indicates market feasibility of <u>high-level policy ideas</u> and potential for adding housing capacity

- <u>Helps guide next steps</u> on sites and rezoning analysis

<u>Today is a high-level overview</u> of what we did and learned; we <u>will meet one-on-one</u> to review jurisdiction-specific results and review/refine your existing sites inventory

Why Evaluate Site Policy Strategies?

- HCD requires the capacity portion of the sites inventory methodology be based on **"market feasible"** capacity

  - **Utilization:** Jurisdictions must justify assuming maximum allowed density or adding capacity on under-developed sites; Must make adjustments to reflect realistic / achievable density in zones; Jurisdictions can assume the low end of the range if minimum densities exist

  - **Likelihood:** Must demonstrate that there is a realistic chance, based on market conditions, that a site will develop (or redevelop) in the 6th Cycle

- HCD requires impediments analysis if more than 50% of lower income capacity is on non-vacant sites

Today's Agenda

1. Site strategies evaluation approach

2. Cross-jurisdiction insights from the strategies evaluated
   – *which strategy types were most and least impactful?*

3. Next steps
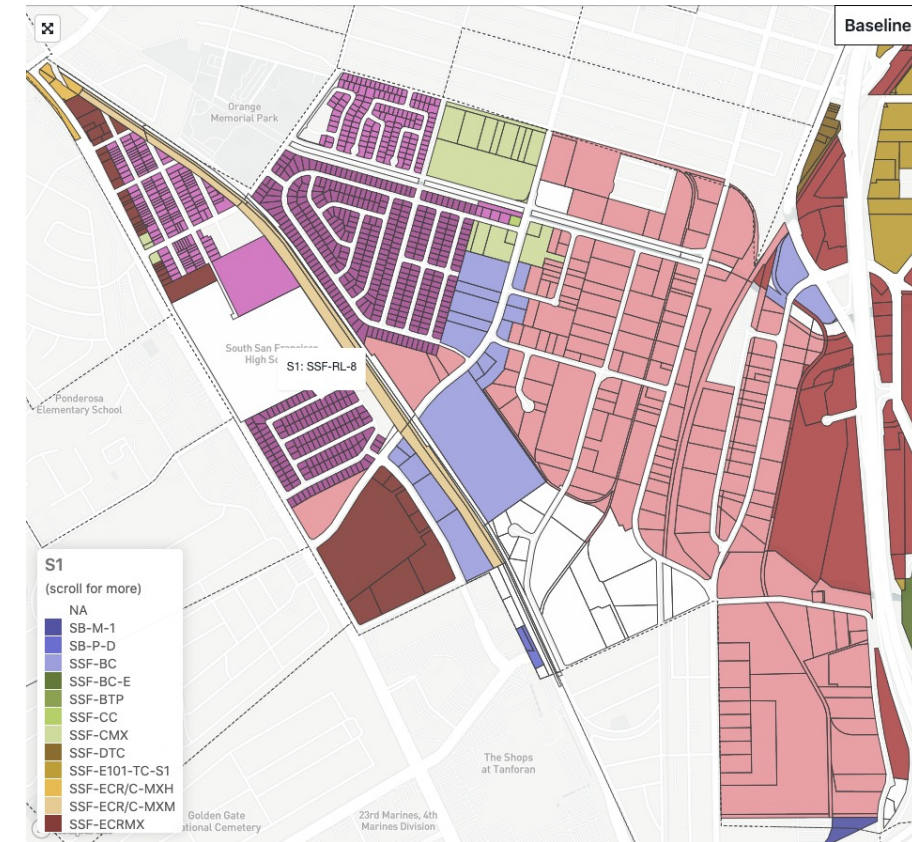
What Types of Strategies Were Evaluated?

- **Up to Three Rezone Scenarios**
  - *Strategies that Expand the Inventory of Sites Where Housing Is Allowed*

- **Up to Four Upzone Scenarios**
  - *Strategies that Allow More Housing on Sites Where Housing Is Already Allowed*

- **Up to Three Additional Scenarios**
  - *Changes to parking requirements*
  - *Modified (or new) inclusionary zoning requirements*
  - *Modified housing fees*

- **Rezones / Upzones**
    - Increasing allowed density, and allow additional residential uses, in previously single-family zones, either citywide or in specific areas (e.g., Atherton, Burlingame, Pacifica)
    - Allowing residential in previously commercial-only zones (e.g., Pacifica, Portola Valley, Redwood City, South San Francisco)
    - Allowing residential on publicly-owned / institutional parcels (e.g., Atherton, Hillsborough, Menlo Park)
- **Additional Scenarios**
    - Reducing minimum parking requirements near transit (e.g., Brisbane)
    - Reducing impact fees for affordable housing units (e.g., East Palo Alto)

How Were Site Strategies Defined?

Each jurisdiction submitted strategy concepts, data and shape files based on their Site Strategy Worksheets

Site Strategies	Zoning Map	Zoning Code	Policies
• Worksheets describing each strategy • Designated target areas	• Existing zoning • Proposed zoning	• Allowed uses • Development Standards	• IZ Policies • Parking Policies

What Do Site Strategy Evaluations Reveal?

- Indicates the change in market-feasible unit capacity enabled by each strategy:

<div align="center">

Market-feasible unit capacity under proposed strategy

minus

Market-feasible unit capacity of existing policies

equals

Capacity change (net new units) from implementing the strategy

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- If two policy strategies achieve a similar capacity boost, we estimated the net construction value per acre resulting from each strategy

- Pro forma models are the "lingua franca" of real estate development

Developer

Landowner

FOR SALE

Pro Forma

Investors

Bank
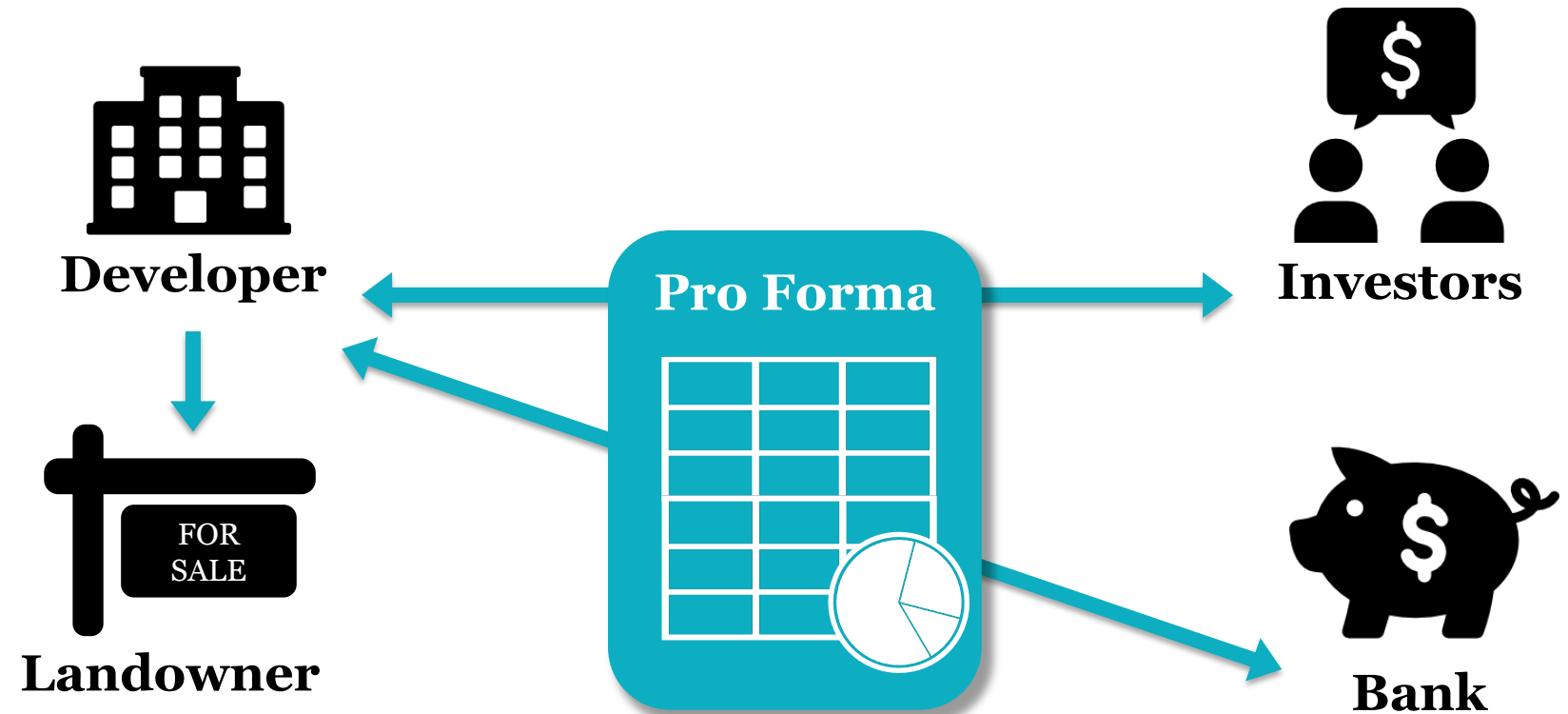
Pro formas incorporate policy impacts

- Strategies were analyzed with zoning-sensitive **pro forma models** to evaluate development feasibility

Policy

Sites

Market Demand

Pro Forma

Return on Capital

Costs
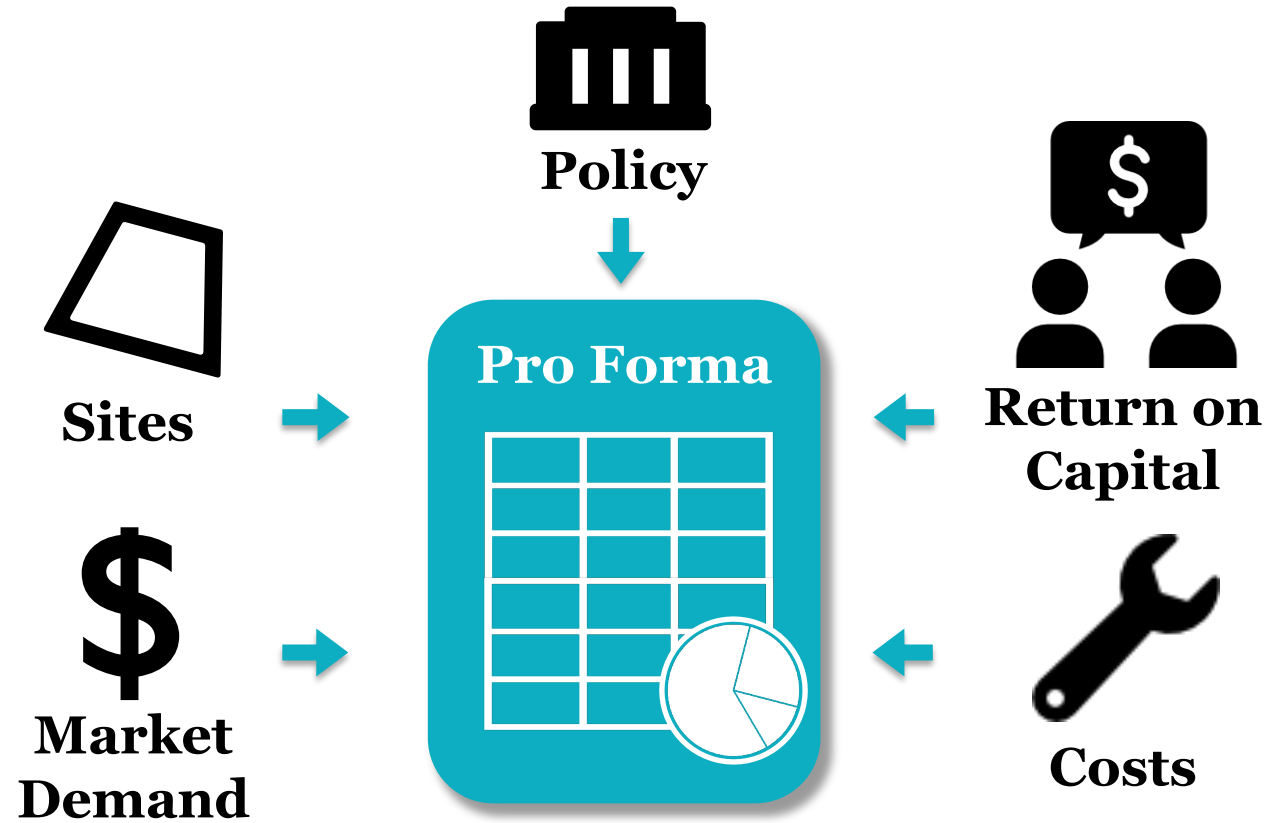
How Was Housing Capacity Estimated?
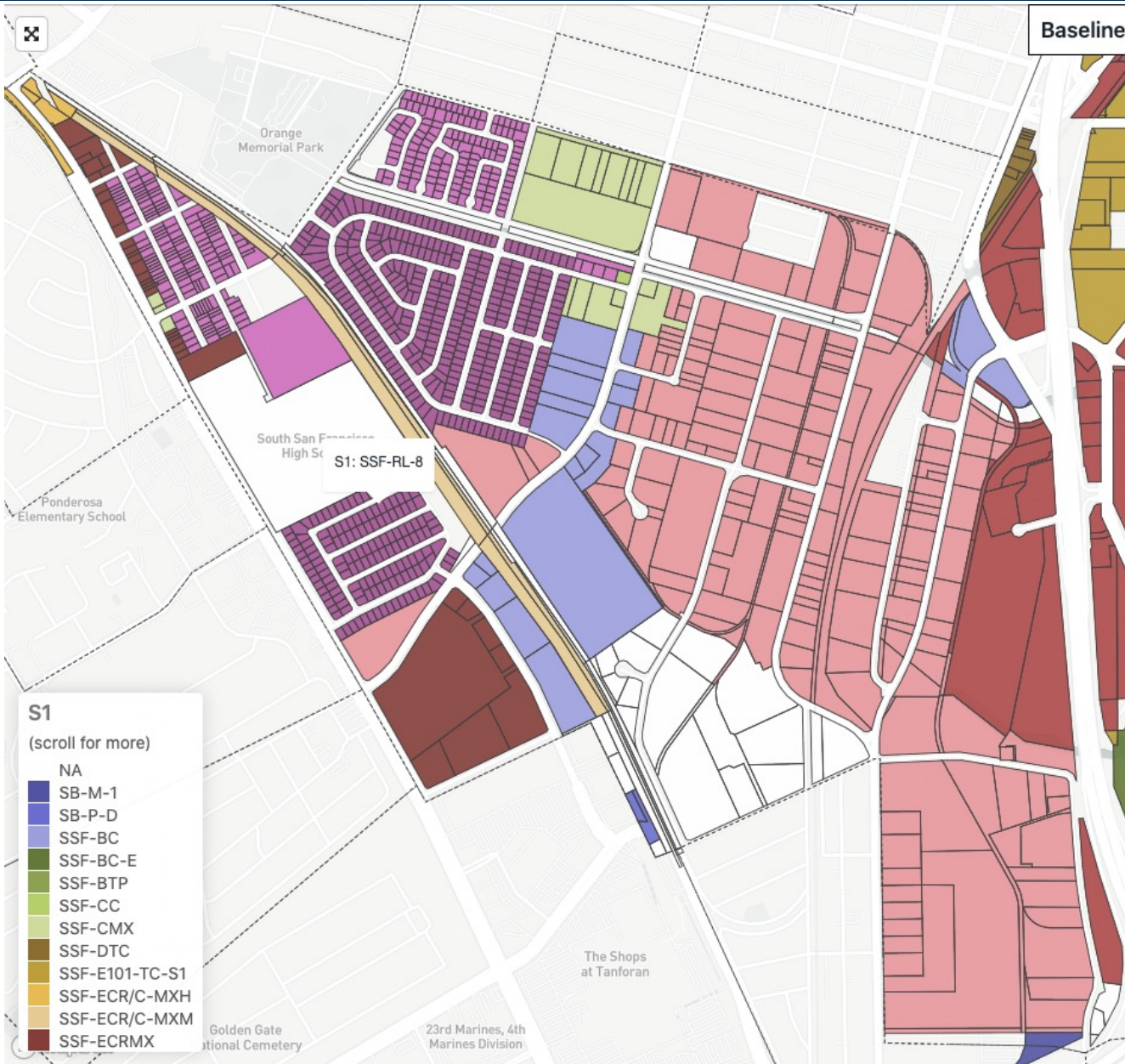
- Evaluated across all parcels

- Accounted for in-place values

- Estimated the market feasible capacity on each parcel

- Summed parcel results to measure jurisdiction-wide capacity impact of strategy

How Was Housing Capacity Estimated?

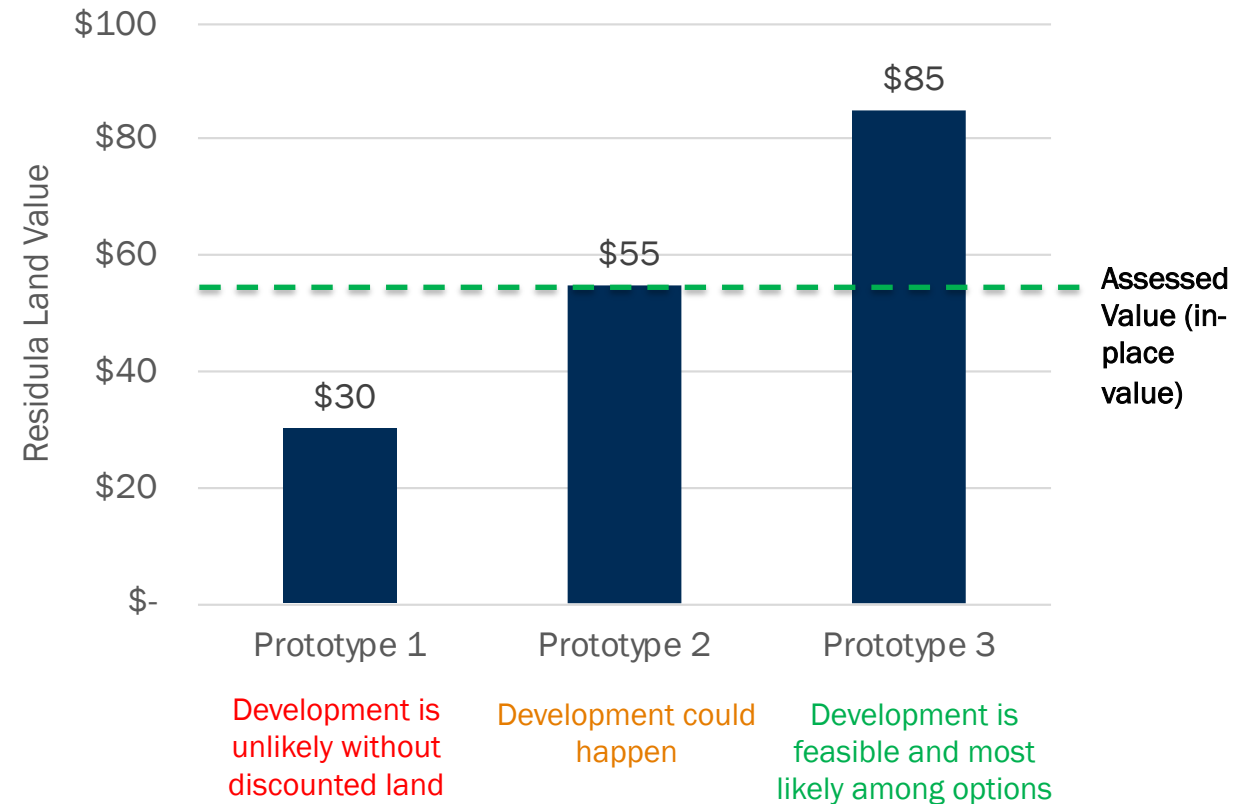- Pro forma compares expected revenues (rents, leases, prices) against expected costs (land, labor, materials, returns)

- Determines **residual land value**

  - Essentially the amount a developer can pay for a site if they construct a particular building

Residula Land Value

$100
$80
$60
$40
$20
$-

$30 — Prototype 1
$55 — Prototype 2
$85 — Prototype 3

Assessed Value (in-place value)

Development is unlikely without discounted land

Development could happen

Development is feasible and most likely among options

Going From This Analysis, to Your RHNA 6 Site Inventory

- While we will provide you with unit counts, you should use these as an indication of the *order of magnitude impact* from alternative strategies (this is a high-level analysis!)

- Where strategies had little (or negative) impact, we will provide some interpretation of why, so you can factor into next steps if desired

- While the analysis reflects market feasibility, other factors must be analyzed for a site to be included in your inventory

Going From This Analysis, to Your RHNA 6 Site Inventory

You will need to consider:

- Affirmatively furthering fair housing
- Political will / public realities of each strategy
- Site-specific constraints and suitability
- Implementation steps, capacity, and timeline
- Tradeoffs between policies (if conflicting or overlapping)
- Pairing policy strategies to reach RHNA

Site Policy Strategies
Cross-Jurisdiction Insights

Top Level Insights

Factors that limited results:

- Existing in-place values
- Narrow ranges for minimum and maximum entitlements (e.g., DUA)
- Policies targeting one development type simultaneously impacted other development options

Factors that increased results:

- Increasing higher-density residential entitlements, especially relative to non-residential land uses allowed
- Reducing parking minimums
- Limiting single-family as an allowed use to reduce competition

Multifamily density minimums can lower capacity

- **Strategy**
  Limiting small-scale multifamily development where large-scale is allowed
    - *Daly City*
    - *Foster City*
    - *Pacifica*
    - *South San Francisco*

- **Insight**
  Eliminating viable small-scale multifamily options while allowing infeasible large-scale options resulted in no net new unit capacity and sometimes yielded capacity reductions

Top Level Insights

Allowing multifamily is not a guaranteed success

- **Strategy**
  Adding multifamily while maintaining other allowed land uses (e.g., single-family, office)
  - *Brisbane*
  - *East Palo Alto*

- **Insight**
  Other land uses and lower density residential might be more valuable than multifamily, which, in our modeling, resulted in no net new unit capacity

Allowing residential on commercial sites can work

- **Strategy**
  Allowing multifamily in zones that previously only allowed commercial uses
  - *Redwood City*
  - *San Bruno*
  - *San Mateo County*

- **Insight**
  Allowing residential in commercial zones sometimes resulted in more capacity. This was especially true when entitlements increased for residential uses only.

Paired entitlement changes worked best

- **Strategy**
  Allowing more uses while relaxing standards.
  - *Atherton*
  - *East Palo Alto*
  - *Menlo Park*

- **Insight**
  Allowing more land uses increased unit capacity most effectively when also relaxing standards, particularly when relaxing only housing standards

Parking reductions work where demand is low

- **Strategy**
  Reducing parking near transit.
    - *Burlingame*
    - *Menlo Park*
    - *South San Francisco*

- **Insight**
  Developers will generally provide the least amount of market feasible residential parking to help financial feasibility of projects, but only if allowed.

Reducing fees, especially affordable-only, was ineffective

- **Strategy**
  Reducing impact fees on all units or on inclusionary affordable units
  - *Atherton*
  - *Brisbane*
  - *Burlingame*
  - *Menlo Park*
  - *San Bruno*
  - *South San Francisco*

- **Insight**
  Reducing fees increases the financial feasibility of development, especially LIHTC projects, but modeling indicated that, in most cases, it did not result in greater unit capacity

Recent ADU production provides many jurisdictions with a solid RHNA foundation

- **Strategy**
  Use HCD's "safe harbor" methodology to project ADU production based on recent trends (avg. & max)

  - *Atherton*

  - *Hillsborough*

  - *Pacifica*

- **Insight**
  2021 production figures will be key in determining base range for meeting RHNA

Allowing multiple ADUs per site can add a modest bump to projected ADU production

- **Strategy**
  Allow more than one JADU and one ADU on each residential property (based on size, or in general)
    - *Atherton*
    - *Woodside*

- **Insight**
  Seattle's experience shows a 6% uptake after a change allowing >1 ADU on a property (39 of 646 ADU permits since 2019)

Guidance memo: ADU policies, practices + projections

- **Strategy**
  - Determine overall capacity
  - Document recent trends
  - Project potential additional production based on tiers of action (based on capacity, trends and other local factors)

- **Insight**
  Housing element update process provides opportunity for cross-jurisdiction collaboration on pro-ADU policies and practices

IZ is influential and can shape housing capacity

- **Strategy**
  Imposing different set-aside requirements
  - *Brisbane*
  - *Burlingame*
  - *Foster City*
  - *Menlo Park*
  - *Milbrae*

- **Insight**
  San Mateo County's strong market can support IZ in many contexts; local IZ can encourage state bonus; minimum unit thresholds can encourage small-scale development

Top Level Insights

Limiting single-family can improve housing capacity

- **Strategy**
  Removing single-family as an allowed use in zones
  - Burlingame
  - Pacifica
  - Portola Valley

- **Insight**
  Single-family is a valuable development type. Removing single-family as an allowed use can reduce market competition for denser residential developments.

Things You Can Do

Key Things to Consider

To increase market-feasible capacity:

- Remove parking minimums

- Increase residential entitlements relative to others

- Allow residential more places

- Calibrate ranges between min and max entitlements to market context

Generally good practices that do not have major capacity impacts:

- Reduce fees for affordable housing

- Adopt pro-ADU policies

- Carefully calibrate IZ policies

Site Policy Strategies
Next Steps

What Happens Next

You will receive...

- PDF of this presentation; *plus*

- Jurisdiction-specific results for site strategies tested; *plus*

- Working draft of ADU guidance memo; *plus*

- Request for existing element's sites inventory in GIS or Excel format and key contact person; *plus*

- Invitation to schedule one-on-one

Also, regional Missing Middle working group will launch in July!