



CITY OF
**PALO
ALTO**

City Council Staff Report

From: City Manager

Report Type: ACTION ITEMS

Lead Department: Planning and Development Services

Meeting Date: January 21, 2025

Report #:2409-3513

TITLE

Selection of Non-Profit Development Partner to Construct a 100% Affordable Housing Project on the City-Owned Parking Lot Located at the Corner of Kipling Street and Lytton Avenue and Direction for Staff to Prepare an Exclusive Negotiating Agreement with Alta Housing to Establish a Partnership Process and Parameters; CEQA status — Not a Project.

RECOMMENDATION

Staff recommends City Council:

- 1) Direct staff to enter into an exclusive negotiating agreement with Alta Housing.
- 2) Provide preliminary direction to staff on key project components that will guide partner design focus for future development on this site related to:
 - A. Parking scenarios;
 - B. Unit count and bedroom mix; and,
 - C. Building height.

EXECUTIVE SUMMARY

To advance Housing Element Implementation Programs and City Council Priorities, staff issued a Request for Information (RFI) and received detailed proposals from Alta Housing and MidPen Housing for a 100% affordable housing development on the City-owned surface parking lot at Kipling Street and Lytton Avenue (Lot T). Each developer studied three different parking scenarios: on-site parking for residents only (Scenario A), on-site parking for residents and the public (Scenario B), and no on-site parking (Scenario C). Staff seeks the City Council's direction on which of these parking scenarios to pursue and in partnership with which of the two developers. Staff also seek guidance on various components of the project relating to unit counts and mix as well as building height.

Staff's review of the submitted materials and each developers' breadth of experience concludes that either developer would be a qualified partner for the City in this project. Both developers have expressed a strong interest in working with the City and iterated the flexibility of their project designs at this early point in the development process. From staff's perspective, Alta

Housing demonstrated greater due diligence and attention to detail during the post-submittal discussion with staff and an overall focus on project feasibility, financing and success. Notably, the Alta Housing proposal has the added benefit of requiring less gap funding from the City; making this project more feasible for the City as well.

To further advance this project to the next phase, staff seek Council guidance on development parameters that will influence the design, populations served, funding needs and feasibility, and may inform other City initiatives related to public parking downtown, such as a new public parking garage for Lot D at the corner of Waverley Street and Hamilton Avenue. Importantly, guidance on which parking scenario to further develop is a critical next step that requires Council direction.

This project is intended to be the first of several efforts to redevelop various City-owned sites as affordable housing projects as outlined in the Housing Element. The selection of Alta Housing for the Lot T partnership would not prevent the City from partnering with MidPen, or vice versa, or with other developers, in the future.

BACKGROUND

The City's Certified 2023-2031 Housing Element seeks to develop significant additional housing downtown to meet its Regional Housing Needs Allocation (RHNA) targets. The Housing Element also includes a phased plan to develop 290 affordable and/or workforce housing units on City-owned lands, over the course of the eight-year planning period, including several surface parking lots in the Downtown.¹ Housing Element Implementation Program 1.4A includes the selection of a development partner by the end of 2024 to develop a portion of these units on one City owned parking lot and additional sites in subsequent years based on the results of the initial effort.

RFI & RFRP Processes

In 2022, the City issued a RFI that sought developer input on the redevelopment potential of several different City-owned surface parking lots in the downtown. City Council reviewed responses to this RFI from Alta Housing and MidPen Housing on December 11, 2023. Based on the responses received, staff recommended that Council focus initially on affordable housing development on Lot T.

Lot T is an approximately 20,000-square-foot, rectangular site just one block off University Avenue that offers easy access to transit, shops, and restaurants in the downtown area. While Lot T currently offers parking for up to 52 vehicles, a point-in-time count in October 2023 (conducted by the Office of Transportation) indicated that the parking lot's peak usage was approximately 40 percent over the course of the day. Pre-pandemic, Lot T's peak occupancy

¹ https://www.cityofpaloalto.org/files/assets/public/v/1/planning-amp-development-services/housing-element/housing-element_2023_2031/palo-alto-housing-element.pdf

was 42 percent according to data collected in 2019 by the Office of Transportation.²

In December 2023, Council supported staff's recommendation to pursue affordable housing development on Lot T and provided the following project direction:

- Provide 100% affordable housing up to the 80% area median income (AMI) that qualifies for relevant tax credits.
- Allow height and/or density equivalent up to two additional stories above the current 50-foot height limit with the additional stories being set back from the street face.
- Evaluate parking on site that would be available for the affordable housing residents and potentially shared use for public purposes.
- Pursue transit pass provisions for residents as well as other best practices in reducing single occupancy vehicle use.

In early 2024, Council adopted Priority ED&T 8: "Pursue refined proposals for potential affordable housing development on the Lytton / Kipling Lot T at 450 Lytton Avenue, or elsewhere, with parking for residents and the public."³ To implement this priority, the City issued a Request for Refined Proposals (RFRP) for affordable housing development on Lot T on September 24, 2024. Proposals were received from both respondents on October 29, 2024. Please see Attachments D and E for Alta Housing and MidPen Housing's proposals respectively. After receiving these responses, staff invited Alta Housing and MidPen Housing to present their proposals and engage in a structured conversation about their housing concepts. Staff met with both the MidPen Housing and Alta Housing teams in November.

A development agreement and Planned Housing Zone (Planned Community) permit are expected to allow the two parties to agree upon potential deviations from the standards set by Lot T's existing Public Facilities Zoning to meet shared goals for significant affordable housing production. The City may also place some requirements on the development, such as parking requirements, beyond those required by State law in exchange for the land rights via a development agreement. Procedurally, once a firm is selected and given the anticipated entitlements needed, the applicant would return with a refined plan based on Council direction via a preliminary review (study session) application process before a formal application can be submitted.

Development Partner Experience

Both Alta Housing and MidPen Housing are experienced and respected affordable housing providers in the Bay Area. Alta Housing's portfolio stands out for its numerous projects in Palo Alto while MidPen Housing's portfolio stands out for its overall size and impact. Indeed, Alta Housing has 23 properties in Palo Alto with 1,000 units in their overall portfolio while MidPen Housing has two properties in Palo Alto (180 units) and over 10,000 units in their portfolio.

² <https://www.cityofpaloalto.org/files/assets/public/v/8/agendas-minutes-reports/agendas-minutes/city-council-agendas-minutes/2021/12-december/20211206/20211206pccsm-amended-linked.pdf>

³ <https://portal.laserfiche.com/Portal/DocView.aspx?id=102204&repo=r-704298fc>

ANALYSIS

The amount of parking included in the Lot T affordable housing development will be a primary driver of the overall project design, costs, and housing capacity. To help the City assess the tradeoffs of various parking solutions on the site, the Request for Refined Proposals asked each developer to study three potential parking scenarios:

- **Scenario A:** Include only on-site parking for residents of the affordable housing development only; this scenarios assumes City will provide replacement public parking off-site).
- **Scenario B:** On-site parking for residents of the affordable housing development and replacement of 52 public parking spaces.
- **Scenario C:** No on-site parking for residential or public uses (assume use of Assembly Bill 2097 and City provision of replacement parking off-site); and to the extent needed to support the building residents, van-accessible parking or loading spaces, as appropriate.

A summary of the partner’s responses to each of these scenarios is summarized in the table below and analyzed in the discussion that follows. For additional details on each of the potential partners’ proposals, see the tables in Attachments A, B, and C.

Table 1: Partner Proposal Summaries

Parking Scenario	Developer	Total Units	Average Unit Size (SF)	Parking Stalls	Total Stories	Cost per Unit	City Gap per Unit	Total Development Cost	Total City Gap
A	Alta Housing	54	790	27	5	\$1.03 million	\$77,000	\$55.3 million	\$4.1 million
	MidPen Housing	73	765	36	7	\$889,000	\$139,000	\$64.8 million	\$10.1 million
B	Alta Housing	57	716	52	7	\$1.23 million	\$73,000	\$70.1 million	\$4.2 million
	MidPen Housing	61	766	62	7	\$954,000	\$155,000	\$58.2 million	\$9.4 million
C	Alta Housing	47	716	0	4	\$979,000	\$88,000	\$46.0 million	\$4.1 million
	MidPen Housing	77	773	5	7	\$860,000	\$132,000	\$66.2 million	\$10.2 million

Parking Scenario A⁴

In Scenario A, both Alta Housing and MidPen Housing were asked to present proposals for housing developments which included on-site parking for residents only. This scenario assumes

⁴ MidPen’s Scenario A2, which considered a parking ratio of 0.7 spaces per unit, was not evaluated in this report to provide a more consistent analysis among respondents.

that the City will provide replacement parking for the 52 existing public spaces elsewhere at its own cost.

Alta Housing proposes a five-story building that responds to the scale of the historic buildings across the street while still providing 54 units, ranging in size from one to three bedrooms. While this proposal provides fewer units than MidPen's proposal under this parking scenario, it still exceeds the City's stated goal to build 50 affordable units as part of its first parking lot redevelopment project. The units would be for families and formerly homeless households earning up to 60 percent of the Area Median Income (AMI). The project would be parked at 0.5 spaces per unit, resulting in 27 parking stalls on the ground floor of the building. The average cost per unit in this scenario is \$1.03 million. The total gap funding requested from the City is a \$4.1 million (\$77,000 per unit), in the form of a soft loan.

MidPen Housing proposes a seven-story building with 73 units ranging in size from studios to three bedrooms. The units would be for families earning up to 60 percent of the AMI. The project would also be parked at 0.5 spaces per unit, resulting in 36 parking stalls also located on the ground floor of the building. The average cost per unit in this scenario is \$889,000. The total gap funding requested from the City is \$10.1 million (\$139,000 per unit), in the form of a soft loan.

A comparison table of the two proposals under this parking scenario is provided in Attachment A. The full Alta Housing proposal and MidPen Housing proposal are provided as Attachment D and Attachment E, respectively.

Parking Scenario B

In Scenario B, both developers were asked to prepare design proposals that provided 1:1 replacement parking for the 52 spaces currently on site, in addition to on-site residential parking. Both Alta Housing and MidPen Housing proposed two levels of podium parking to accommodate the larger number of required parking spaces in this scenario and neither respondent was able to accommodate any at-grade open space for residents or the public.

Alta Housing proposes a seven-story building with 57 units, ranging in size from studios to three-bedrooms. The units would be for families and formerly homeless households earning up to 60 percent of the AMI. The project includes 52 total parking spaces, which would not result in any resident parking on-site, unless the City agreed to replace the existing public parking at a ratio less than 1:1. Alta Housing's average total cost per unit in this scenario is the same as in Scenario A, \$1.23 million. The total gap funding requested from the City in this scenario is very similar to the Scenario A proposal: a \$4.2 million (\$73,000 per unit) soft loan.

MidPen Housing proposes a seven-story building with 61 unit, ranging in size from studios to three-bedrooms. The units would be for families earning up to 60 percent of the AMI. The project includes 62 parking spaces, which would result in 10 resident parking spaces (<0.2 spaces per unit) in addition to the 52 public parking spaces, unless the City agreed to a

replacement parking ratio less than 1:1. The average total cost per unit is \$954,000. The total gap funding requested from the City is \$9.4 million (\$155,000 per unit) in the form of a soft loan.

A comparison table of the two proposals under this parking scenario is provided in Attachment B. The full Alta Housing proposal and MidPen Housing proposal are provided as Attachment D and Attachment E, respectively.

Parking Scenario C

In Scenario C, the respondents were asked to provide a proposal with no on-site parking for either residents or the public; with consideration of overall design, financial, and community impacts resulting from this approach. This scenario approximates what could be proposed on a privately held parcel in this location under Assembly Bill 2097 without any public replacement parking requirements. For both developers, this resulted in the largest at-grade open spaces and the lowest costs per unit for development of any of the scenarios. However, both developers expressed concern about the lack of resident parking in this scenario and noted that this would impact their ability to lease the units unless they explored off-site resident parking.

Alta Housing proposes a four-story building. While this proposal does not build to the maximum allowed residential density, Alta Housing states that it is expected to be more competitive for certain types of financing. This project includes 47 units, ranging in size from one to three bedrooms. The units would be for families and formerly homeless households earning up to 60 percent of the AMI. This scenario results in a total per unit cost of \$979,000. Similar to the other scenarios, Alta Housing requests a total City contribution of \$4.1 million (\$88,000 per unit) in this scenario, in the form of a soft loan.

MidPen Housing proposes a seven-story building for this scenario with a total of 77 units, ranging in size from studios to three-bedrooms. The units would be for families earning up to 60 percent of the AMI. This is the greatest number of units achieved by either developer under any scenario. Additionally, MidPen Housing has proposed the inclusion of five ground level parking spaces for general use and accessibility purposes. The average cost per unit is \$860,000. MidPen Housing request a total of \$10.2 million (\$132,000 per unit) in gap funding from the City in the form of a soft loan in this scenario. This represents both the lowest cost per unit and the highest overall gap funding request from the City across of any of the design scenarios proposed by either of the developers.

A comparison table of the two proposals under this parking scenario is provided in Attachment C. The full Alta Housing proposal and MidPen Housing proposal are provided as Attachment D and Attachment E, respectively.

Parking Scenario Direction

Staff seeks City Council direction on which parking scenario to pursue. Both developers indicated an initial preference for Scenario A, which avoids additional per unit financial costs

associated with providing replacement public parking (as in Parking Scenario B) or the potential reliance on street parking to support projects with limited residential parking as in Scenarios B and C. Staff does not recommend providing off-site resident parking in any of the scenarios considered, as relying on off-site resident parking for this project may introduce both timeline and funding risks to the development.

In Parking Scenario A, both Alta Housing and MidPen Housing proposed providing residential parking on site at approximately 0.5 spaces per unit. While this is the highest on-site residential parking ratio of the three scenarios, it is reported by the respondents as meeting the project's expected needs based on the population served and project location.

Data shows that Santa Clara County housing projects with at least 50% affordable units average 0.8 occupied spaces per unit overall, with senior and diverse ability projects average 0.43-0.45 spaces per unit and family-serving projects average 1.1 spaces per unit.⁵ However, the amount of on-site resident parking that will be necessary for a family-serving development in this location is likely to be lower than it would be in other parts of the City or County given the site's proximity to jobs, shopping, schools, and transit. For reference, the current car ownership rate in Downtown Palo Alto is 0.8 cars per rental household.⁶

Since the proposed project would still provide parking at a rate below both the county-wide and downtown Palo Alto averages, it will be important to take additional measures to reduce on-site resident parking needs and avoid potential impacts to nearby street parking. For example, both developers have proactively proposed bike parking as part of their projects, and while not currently proposed, the City could request that residents be provided transit passes.

Parking Scenarios A and C remove existing public parking, which would be replaced elsewhere in the downtown, namely at the public parking garage planned at Lot D. Existing data show that off street parking demand is generally lower at the northern end of downtown than the southern end. As previously referenced, Lot T pre- and post-pandemic has about a 40% occupancy rate based on single day point in time counts.

Scenario B includes both off-street parking for residents and replacement public parking. In either scenario the City would ultimately absorb the cost of any replacement public parking spaces. However, removal of replacement public parking from the Lot T redevelopment project would eliminate the cost of these spaces from the affordable housing project's proforma, lowering its overall costs and, in turn, increasing the project's feasibility and funding competitiveness. These considerations are discussed more fully below but for reference, MidPen Housing estimated that above ground stalls cost \$55,000 each to construct, and fully subterranean stalls cost over \$90,000 each to construct. Alta Housing estimated up to \$80,000

⁵ Data sourced from search for Santa Clara County housing projects with 50-100% affordable units on November 15, 2024 via the GreenTrip Database available at <https://database.greentrip.org/>.

⁶ Downtown Palo Alto Housing Master Plan: Mobility and Interconnectivity Analysis Presentation by WRT (August 24, 2024)

and up to \$160,000 respectively.

Recommended Development Partner

In order to help facilitate Council's discussion, staff recommend partnering with Alta Housing based on the group's performance in the post-submittal discussions, the manageable amount of gap funding requested from the City; its population focus that includes formerly unhoused households, and site design and massing. While both firms indicated flexibility to modify or adjust design styles and approaches, Alta Housing's conceptual designs reflected a sensitivity to the adjacent historic properties while still meeting the expected number of housing units. Alta Housing also focuses on larger bedroom units and fewer studio apartments. During the interview, Alta Housing indicated it completed a detailed scoring exercise to confirm the competitiveness of the Scenario A proposal for tax credits, which was reportedly very favorable. MidPen Housing's post-submittal discussion was more general in nature, focusing on MidPen's experience, approach and flexibility.

Alta Housing has also requested less gap funding from the City in all parking scenarios. Alta Housing proposed a consistent contribution of approximately \$4.1 million from the City in all parking scenarios. In their proposal, Alta Housing explained that they arrived at this amount based on the City's current Affordable Housing Funds NOFA and the annual availability of Local Housing Trust Fund (LHTF) financing from the state. MidPen Housing requested \$9.4 million to \$10.5 million in gap funding from the City. This variation was primarily driven by the various number of units proposed under each scenarios; the per unit ask for gap funding remained fairly consistent.

Additionally, Alta Housing proposed to reserve a portion of all units for formerly homeless individuals, which aligns with the City's goal to provide housing and shelter for those most in need.

Alta Housing's initial massing and design responses were more contextually appropriate relative to the historic homes on Kipling Street, in all scenarios. However, both developers noted that their designs were preliminary and highly flexible at this point.

Notwithstanding the staff recommendation, the City Council may select MidPen Housing as their partner to develop affordable housing on Lot T. MidPen Housing's proposals included more units in each scenario and had a lower per unit cost compared to Alta Housing's proposals, and if pursued at the contemplated heights, could inform other policy direction related to future downtown housing development. Both projects move the City closer to its RHNA targets and further advance relevant Housing Element Programs.

Project Parameters: Housing Unit Mix/Target Population

Staff recommends that Council direct staff to develop the proposed project to serve families. Both developers recommended building family units on this site for the following reasons:

- Families would benefit greatly from the site's proximity to jobs, schools, transit and open space
- There are significant tax credits available to help fund family-serving projects
- Market-rate development favors smaller units, resulting in fewer housing options for families

One potential downside of developing the site to serve families is that families tend to have higher parking needs than some other populations, such as seniors or those with diverse abilities. Both developers agreed that 0.5 spaces per unit was the minimum feasible parking ratio for family developments based on their experiences. This is slightly less than the current estimated downtown household car ownership rate of 0.8 vehicles per occupied rental housing unit⁷, it is still more than is strictly required. Census data also shows that 39.4% (E = +/- 11) of occupied rental housing units in the Downtown Palo Alto Census Tract do not have any car and would therefore not require any parking.⁸ State law would allow this site to be developed with no or limited parking and local law allows the Planning and Development Services Director to reduce parking as low as to 0 spaces per unit, before accounting for any accessible or EV-charging stalls.

If Council wanted to limit the amount of parking on site below 0.5 spaces per unit, Council could direct the selected developer to serve a different population, such as seniors or those with diverse abilities. This would likely result in more units on site, as there would be less space dedicated to parking and more to housing. These populations also tend to occupy smaller units, which may also increase the unit count (though not necessarily the number of individuals housed) on site.

If Council directs the selected developer to build a family-serving project, staff recommends Council direct the selected developer to build at least 25% two-bedroom and 25% three-bedroom units in order to ensure eligibility for tax credit opportunities for the project.⁹ Council could consider providing further direction to the selected developer on the breakdown of the 50% remaining studio and/or one-bedroom units, if desired. Including more studios would result in a higher overall unit count since each unit would require less square footage, however both developers noted that one-bedrooms tend to be more attractive to potential renters and easier to lease.

⁷ U.S. Census Bureau. "Physical Housing Characteristics for Occupied Housing Units." American Community Survey, ACS 5-Year Estimates Subject Tables, Table S2504, 2022, https://data.census.gov/table/ACSST5Y2022.S2504?g=1400000US06085511302_160XX00US0655282. Accessed on January 7, 2025.

⁸ U.S. Census Bureau. "Physical Housing Characteristics for Occupied Housing Units." American Community Survey, ACS 5-Year Estimates Subject Tables, Table S2504, 2022, https://data.census.gov/table/ACSST5Y2022.S2504?g=1400000US06085511302_160XX00US0655282. Accessed on January 7, 2025.

⁹ See page 69 for details: <https://www.treasurer.ca.gov/ctcac/programreg/final.pdf>

Project Parameters: Maximum Building Height

Staff seeks Council direction to the selected developer on a target building height. Currently, 50 feet is allowed downtown, though through a density bonus allowance, an 100% affordable housing project could achieve a height of at least 83 feet. Alta Housing's conceptual designs range from 50 to 75 feet; MidPen Housing's conceptual design ranges from 72 to 74 feet. Building height influences the number and/or sizes of units that could be placed on site and construction costs. The Council may also want to consider context to the lower profile historic structures across the street on Kipling. Both developers have expressed a preference for development utilizing Parking Scenario A, which corresponds with conceptual heights of 60 and 72 feet for Alta Housing and MidPen Housing respectively.

FISCAL/RESOURCE IMPACT

There is no fiscal impact associated with the recommendation to select a development partner for this site. The City's primary contribution towards this partnership will be in the form of a long-term land lease at a nominal cost, such as \$1 per annum. Alta Housing estimated Lot T's land value at \$7 million, while MidPen Housing provided an estimated range of \$3-5 million. The selected development partner may be able to leverage this land value to secure additional outside funding. Unfortunately, due to the high costs of housing delivery, both developers have indicated that additional gap funding is anticipated to be required to achieve a viable project, as noted in the analysis above. These amounts may change based on the availability of other outside funding sources. The developers do not consider any of the proposed projects viable without significant gap funding from the City, or another similar source, at this time. The City made up to \$15,000 available to each of the developers to support the development of their detailed responses to the City's Request for Refined Proposals. Alta Housing accepted this support while MidPen Housing chose to use their own predevelopment funds.

NEXT STEPS

Once a development partner is selected for Lot T, the City will work in good faith with the selected partner to negotiate the appropriate development agreements, such as an Exclusive Negotiating Agreement, that is expected to result in a Disposition and Development Agreement. The project entitlement process and any necessary CEQA review is anticipated to occur separately from, but in parallel with, the described agreements process. The City is expected to convey the Lot T project site via a long-term ground lease to the selected development partner in as-is condition and the partner would be responsible for obtaining all necessary planning approvals and building permits for the project.

STAKEHOLDER ENGAGEMENT

The preliminary RFI responses received in 2023 were discussed at a City Council meeting on December 11, 2023. This staff report and the developers' responses to the Request for Refined Proposals was published online ahead of the January 21, 2025 City Council meeting, and included as part of the publicly posted meeting agenda the meeting. Standard outreach to

property owners and occupants within 600 feet of the site will be part of the entitlement process for any future development of the site.

ENVIRONMENTAL REVIEW

The selection of a development partner for Lot T is not considered a project under CEQA. CEQA review will be required for the development of the affordable housing project on Lot T in the future.

ATTACHMENTS

Attachment A: Parking Scenario A Comparison Table

Attachment B: Parking Scenario B Comparison Table

Attachment C: Parking Scenario C Comparison Table

Attachment D: Alta Housing Proposal

Attachment E: MidPen Housing Proposal

APPROVED BY:

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