

# Transforming Aging Malls and Office Parks

November 30, 2022



Association of  
Bay Area Governments



METROPOLITAN  
TRANSPORTATION  
COMMISSION



# Agenda

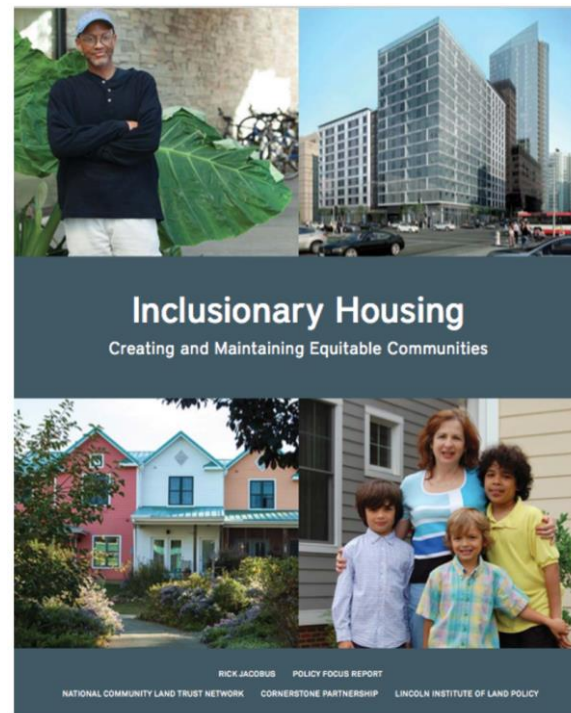
*Goal: To understand how affordable housing requirements lead to some affordable units and consider tools for expanding to reach much higher shares of affordable homes.*

- Introductions (5 min)
- Affordable Housing Requirements (15 min)
- Financial Feasibility Exercise (10 min)
- Feasibility Studies (10 min)
- Maximizing Affordable Units Exercise (10 min)
- Maximizing Affordable Units (20 min)
- Questions/Discussion (15 min)
- Closing (5 min)



# Rick Jacobus

## Street Level Advisors



### Recent Clients:

San Francisco  
San Jose  
Berkeley  
Honolulu  
Seattle  
New York  
Atlanta  
Minneapolis  
Los Angeles County

Lincoln Institute for Land Policy  
Grounded Solutions Network  
PolicyLink  
The Ford Foundation  
F. B. Heron Foundation





# Affordable Housing Requirements

*Require any new multi-family housing to include a share of units that are permanently restricted to lower income residents at below market rate (BMR) rents or sales prices.*



Image: Station Park Green, San Mateo



# Affordable Housing Requirements

*Inclusionary Zoning*  
*Density Bonus*  
*Development Agreements*



Image: Station Park Green, San Mateo



## Inclusionary Zoning



Milpitas Metro  
Milpitas

*Redevelopment of Milpitas Great Mall (437 acres)*

*Includes 7,000 units of housing*

*City wide Affordable Housing Ordinance requires 15% affordable units in all new projects*

*No additional affordable housing requirements in Milpitas Metro Specific Plan*



## Density Bonus

*Filipinotown Strip mall replaced by 93 unit housing development*

*Used LA's Transit Oriented Communities (TOC) to build taller and reduce site setbacks*

*Provided 8 Extremely Low Income Units (11%)*

**1925 W. Temple Street**  
Los Angeles





## Development Agreements

*Pleasanton entered into Development Agreement in 2013 for new housing at Hacienda Office Park*

*2009 Palmer Decision limited applicability of City's IZ ordinance*

*DA required 15% affordable housing*

# High density, multi-story apartment project OK'd for Pleasanton's California Center

Five buildings up to 4-1/2 stories tall, plus retail center set for Owens-Rosewood corner in Hacienda Business Park

by Jeb Bing / Pleasanton Weekly

Uploaded: Wed, Apr 17, 2013, 9:45 am

Updated: Tue, Apr 23, 2013, 7:36 am

Time to read: about 2 minutes



24

A new multi-story, high density apartment project and adjoining retail center was approved last week by the Pleasanton City Council for a section of California Center that has until now has been one of the city's major office centers.

SLIDESHOW



Architect's sketch of Pleasanton Partners apartment complex planned for California Center at Owens-Rosewood drives in Pleasanton.



# Financial Feasibility

## *Exercise*

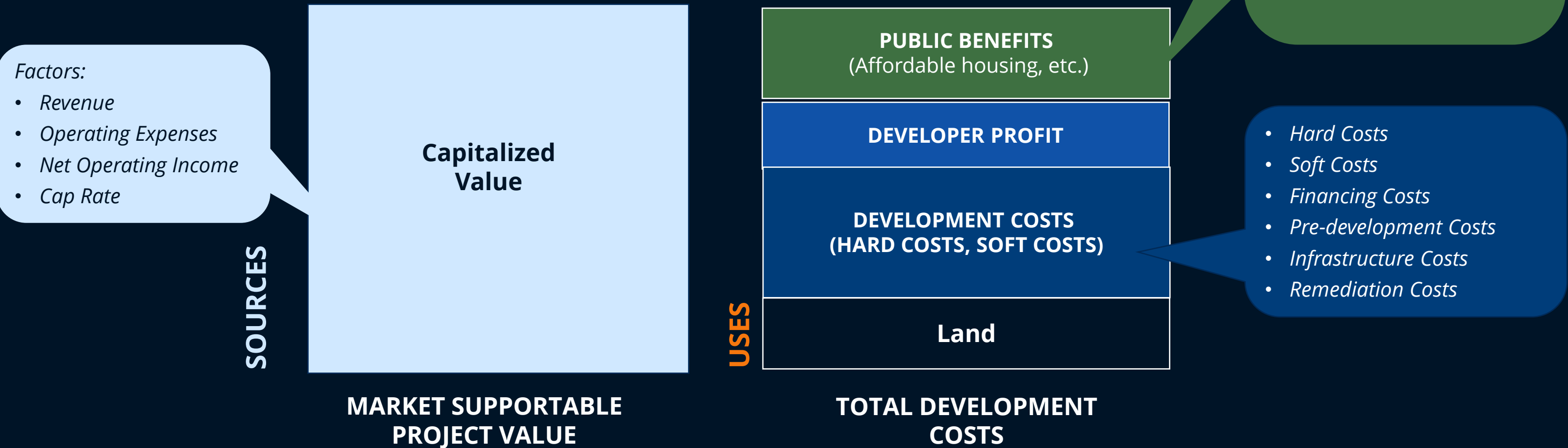


Image: Milpitas Metro



## EVALUATING REDEVELOPMENT PROJECT FEASIBILITY

Land use policies, zoning, and incentives must align with project economics for public benefits to be extracted.

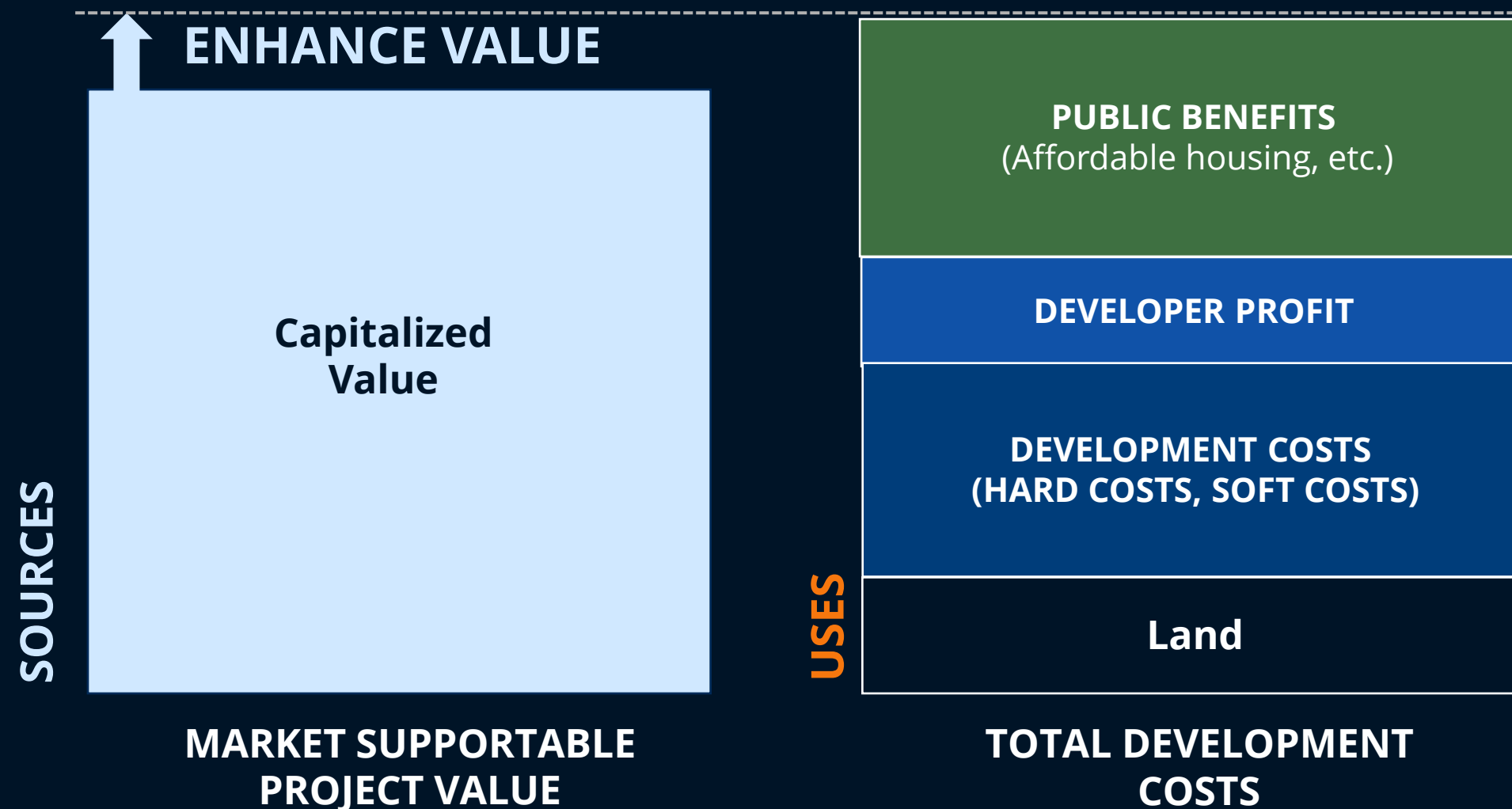


\* Capitalized project value is driven by the stabilized project revenue, operating costs and market cap rate.



## LEVERAGE REDEVELOPMENT PROJECT FOR PUBLIC BENEFITS

Planners can leverage site-specific discretionary approvals and public capital investments to enhance project value.



## VALUE ENHANCEMENT TOOLS

### Land Use / Zoning

- Parking reductions
- Design variances
- Density bonuses
- Height increases

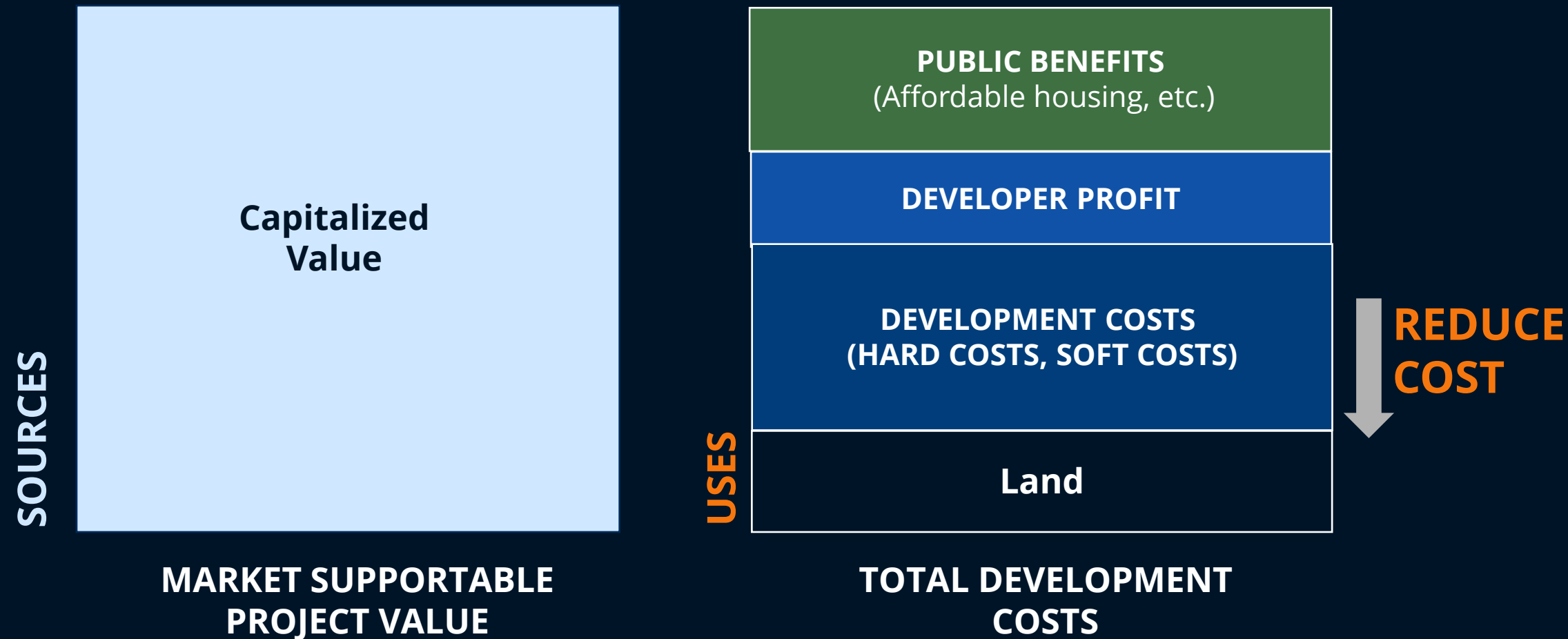
### Public Investment

- Public realm investment
- Transit investment



## LEVERAGE REDEVELOPMENT PROJECT FOR PUBLIC BENEFITS

Similarly, there are a variety of tools that planners can use to help reduce development cost and close feasibility gap.



### COST REDUCTION TOOLS

#### Funding / Financing Subsidy

- Tax subventions
- Assessment districts
- Public financing mechanisms / tools

#### Public Financing

- Infrastructure delivery
- Public realm improvements
- Parks and open space development / operation support

#### Administrative

- Streamlined approval process
- Entitlement certainty



# Inclusionary Housing Calculator

Calculator from [InclusionaryHousing.org](http://InclusionaryHousing.org) provides a visualization of a standard project proforma.

[Exercise Link](#)

GROUND  
SOLUTIONS  
NETWORK

Inclusionary Housing Calculator

Save

Projects: Malls Exercise 11-22

Hello, Rick

Sig

Autosave

Save As...

Revert to defaults

AFFORDABLE UNITS  
AS % OF TOTAL UNITS  
11%

FEASIBLE

COST \$144.98 M

PROFIT \$23.56 M

PROJECT VALUE \$168.54 M

PROJECT

Units per acre: 135.00Total square feet: 360,000Total parking spaces: 270

DESCRIPTION ?  
Malls Exercise 11-22

BASE UNITS ?  
200

SITE AREA ?  
2.00 acres

PARKING RATIO (spaces per unit) ?  
1.00

More

AFFORDABILITY

Total affordable units: 22Total affordable housing fee: \$0.00

AFFORDABLE UNITS AS % OF TOTAL UNITS ?  
11%

AFFORDABLE HOUSING FEE ?  
\$0.00

AMI: AREA MEDIAN INCOME for a family of 4 ?  
\$140.0 K

More

INCENTIVES

AVAILABLE INCENTIVES [make small](#)

Density Bonus

An allowance for additional bonus units.

Parking Reduction

The developer is required to build fewer parking spaces.

Streamlined Processing

The process of applications, permitting etc. is expedited.

Fee Reduction

A reduction in fee, based on the number of units.

Tax Abatement

The developer is incentivized with a reduction in taxes.

Grant (per unit)

A developer grant based on the number of units.

Annual Operating Grant

Any annual grant or operating subsidy incl. any rent subsidies.

MY INCENTIVES

DENSITY BONUS

?

×

✓

?

Title

35%

Units per acre: 135.00Total Square Feet: 360,000Total Parking Spaces: 270

FINANCIAL IMPACT OF 22 AFFORDABLE UNITS

\$10.07 M

COSTS

INCENTIVES

\$8.93 M

178 base Market Rate units

70 bonus Market Rate units

22 affordable units



# Individual Exercise

1: Adjust the affordability %. How high can you go and still have a feasible project?

2: Reduce the parking requirement - How much more affordable housing can you require?

**GROUND SOLUTIONS NETWORK** Inclusionary Housing Calculator

Projects: Save Malls Exercise 11-22 Hello, Rick Sign Out

☒ Autosave Save As... Revert to defaults

**FEASIBLE** ☒ COST \$144.98 M  
PROFIT \$23.56 M  
PROJECT VALUE \$168.54 M  
16.3%

**Is it feasible?**

**AFFORDABLE UNITS**  
AS % OF TOTAL UNITS  
11%

**PROJECT**  
Units per acre: 135.00 Total square feet: 360,000 Total parking spaces: 270

DESCRIPTION: Malls Exercise 11-22  
BASE UNITS: 200  
SITE AREA: 2.00 acres  
PARKING RATIO (spaces per unit): 1.00

**AFFORDABILITY**  
Total affordable units: 22 Total affordable housing fee: \$0.00

**#1** AFFORDABLE UNITS AS % OF TOTAL UNITS: 11%  
AFFORDABLE HOUSING FEE: \$0.00  
AMI: AREA MEDIAN INCOME for a family of 4: \$140.0 K

**INCENTIVES**

AVAILABLE INCENTIVES make small

- Density Bonus**: An allowance for additional bonus units.
- Parking Reduction**: The developer is required to build fewer parking spaces. **#2**
- Streamlined Processing**: The process of applications, permitting etc. is expedited.
- Fee Reduction**: A reduction in fee, based on the number of units.
- Tax Abatement**: The developer is incentivized with a reduction in taxes.
- Grant (per unit)**: A developer grant based on the number of units.
- Annual Operating Grant**: Any annual grant or operating subsidy incl. any rent subsidies.

**MY INCENTIVES**  
DENSITY BONUS: 35%

Units per acre: 135.00 Total Square Feet: 360,000 Total Parking Spaces: 270

**FINANCIAL IMPACT OF 22 AFFORDABLE UNITS:**  
COSTS: \$8.93 M  
INCENTIVES: \$10.07 M  
NET: \$1.14 M

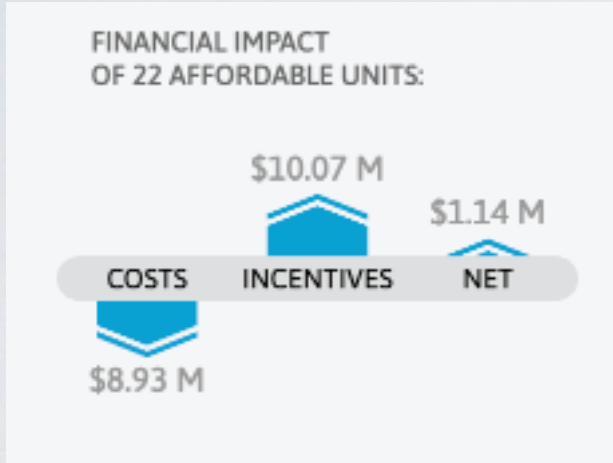
178 base Market Rate units  
70 bonus Market Rate units  
22 affordable units

Print... Share... Tour

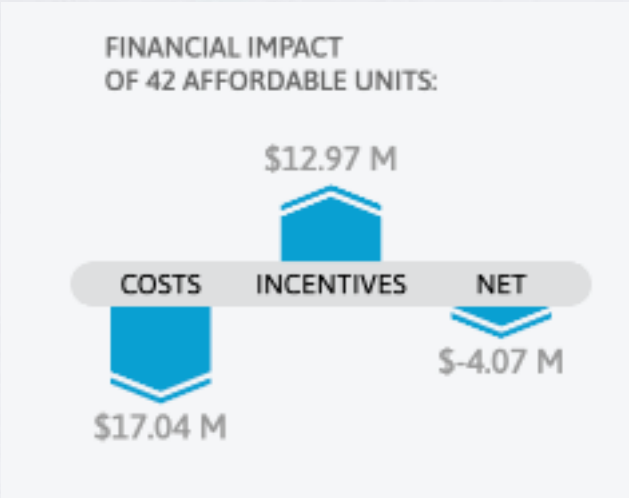


# Exercise: Discussion

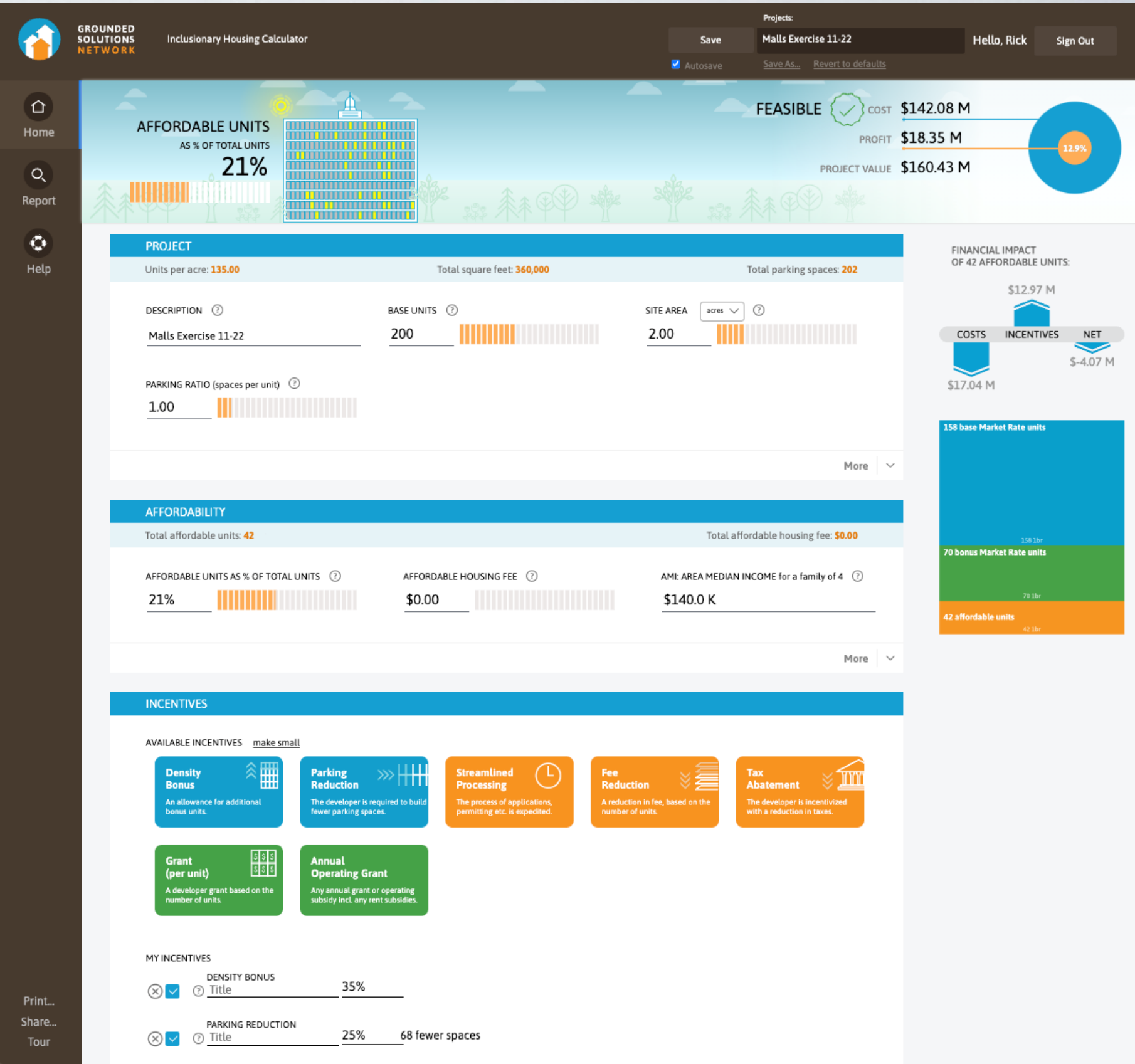
11% Affordable with  
Density Bonus



21% Affordable  
with Bonus +  
Parking reduction



Is it OK if the net financial impact  
is negative?





# Financial Feasibility

*Hiring Consultants*



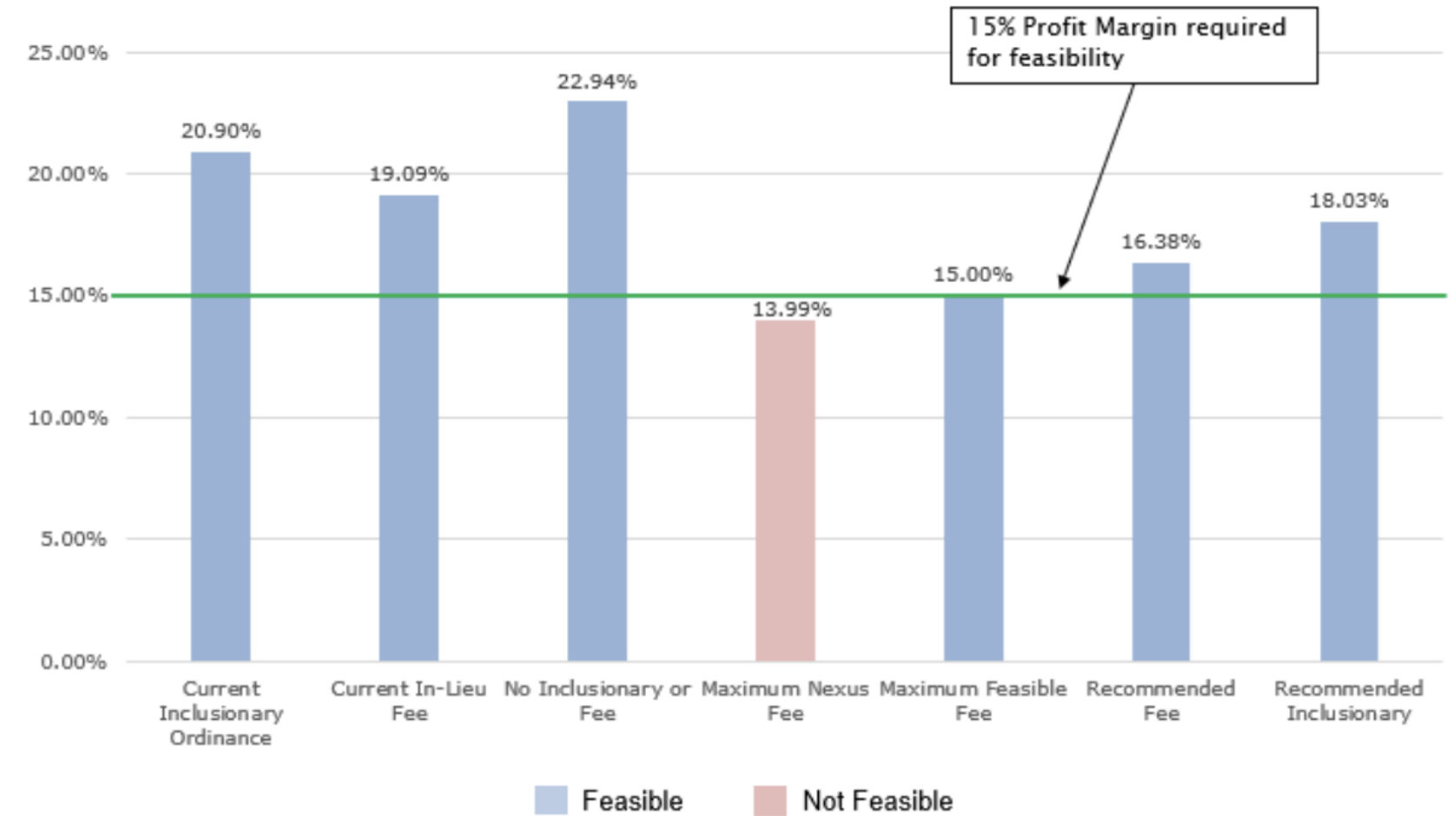
Image: Tasman East, Santa Clara, CA



# Feasibility Study

*San Luis Obispo commissioned a 2022 study of the feasibility of their affordable housing requirements. The report estimated the profitability of hypothetical projects under several scenarios including their current policy and proposed alternatives.*

**Figure 4 For-Sale Feasibility Results by Scenario**



## Feasibility Study

San Luis Obispo



# Maximizing the Share

*Small Group Exercise - 10 minutes*

You are staff for a smaller city with an underutilized Mall.

A consultant study found that the proposed mall redevelopment could feasibly include up to **15% affordable housing** (at 60% AMI)

However, several members of City Council are insisting that the project reach **30% affordable housing** and include some units serving 30% of AMI or less.

***How can you get there if it's not feasible?***



- *Public Land/RFP*
- *SB 35*
- *Overlay Zones*
- *General Plan Policy*
- *Clustering Affordable Units*



# Maximizing the Share of Affordable Units

Image: La Placita Cinco, Santa Ana



## Public Land/RFP

## Mayfair Station El Cerrito

- *City owned former grocery store site adjacent to BART*
- *City was unsure how much affordable housing would be feasible*
- *Issued RFP with no Affordable Housing Requirements*
- *Selected proposal was 30% affordable.*







**SB 35**

## Vallco Town Square

Cupertino

*2402 total housing units*

*City BMR Ordinance*

*VLI (50% of AMI) - 160 units*

*LI (60% of AMI) - 107 units*

*State Density Bonus - 15%*

*11% VLI (50% of AMI) - 267 units*

*SB 35 requires 50% affordable*

*50% LI (80% of AMI) - 1,201 units*

**Net Result:**

**267 units @ 50% AMI**

**107 units @ 60% AMI**

**827 units @ 80% AMI**





## Overlay Zones

## Affordable Housing Combining District Palo Alto

- *Adopted in 2018*
- *Provides flexible development standards for 100% affordable housing (up to 120% of AMI) on commercially zoned sites*
- *Relaxes standards related to lot coverage, open space, parking, height limits and density.*
- *Expanded in 2022 to include streamlined approval process - elimination of hearings shortens development timeline by up to 1 year.*



## General Plan Policy

- *Facilitates 100% affordable housing projects on commercial sites subject to certain criteria*
- *Incomes tied to LIHTC income limits*
- *General Plan designation creates an opportunity for an affordable housing developer to use SB 35 on sites that are zoned commercial*

## General Plan Implementing Policy 5.12

San Jose

Menu CoTour




LoopNet

Help Share Print Advertise

### Urban Village Zoned or Value add retail | 1910-1920 Camden Ave

19,184 SF | 100% Leased | Retail Building | San Jose, CA | For Sale

Retail Space / California / San Jose / 1910-1920 Camden Ave, San Jose, CA 95124



#### INVESTMENT HIGHLIGHTS

- \*100% Affordable Housing Under Policy IP- 5.12
- \*A Signature Project that would allow market-rate/mixed-use is Allowed
- \*0.7 Miles from Proposed Cambrian Park Plaza "Signature Project"
- \*Rare 1.58 AC Infill Corner Parcel | \$145 SF/Land
- \*Core Silicon Valley location only 0.2 Miles to many large retailers on Hillsdale Avenue


#### EXECUTIVE SUMMARY

1910-1920 Camden Avenue is an opportunity to purchase a critical 19,184 SF shopping center on 1.58 Acres situated on the corner of Camden Avenue and New Jersey Avenue. Core Silicon Valley location only 0.2 Miles to many large retailers on Hillsdale Avenue such as The Home Depot, 24 Hour Fitness, Smart & Final Extra, Target, TJ Maxx & HomeGoods, and Big Lots.


Redevelopment Opportunity: 100% affordable housing under Policy IP- 5.12 that would require replacing 50% of the existing commercial space in the new project. A Signature Project, that would allow

market-rate mixed-use, could also be possible, but would require a higher amount of replacement commercial and a minimum number of residential units.


Value-Add Opportunity: Value add opportunity, tenants are on short term leases, with average lease expiration date of 2021-2022. This allows for an opportunity to sign NNN leases rather than the current gross leases and as well lease up the vacant 3,120 SF with an average current gross rent of \$2.87 SF.



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## Mixed Income Clustering

- *San Rafael Inclusionary Policy requires 10% affordable*
- *Developer provided land to EAH to build a 96 unit affordable project (10.6% of total project)*
- *State and federal subsidy reduced need for developer contribution*

**Northgate Town Square**  
San Rafael



## Clustering

*“The benefits that low income families have realized from living in income-diverse neighborhoods have been derived from **improvements in place** rather than interactions with people.”*

Source: Levy, Diane K., Zach McDade, and Kassie Dumlao. 2011. **“Effects from Living in Mixed-Income Communities for Low-Income Families: A Review of the Literature.”**

Metropolitan Housing and Communities Center.  
Washington, DC: Urban Institute.

Image: The Village at Laguna Hills



## Clustering

- 208 units of housing plus hotel on former saw mill site
- Negotiated **Development Agreement** achieved 33% affordable housing.
- 41 LIHTC rental units - Market rate developer provided \$7.8 million (land + cash)
- 22 townhomes for sale to buyers earning 120-160% of AMI

Mill District  
Healdsburg





# Clustering

**831 Water St.**  
Santa Cruz



*Base Project: 109 units*

*With 35% Bonus: 148 units*

*Inclusionary Requirement: 20 Affordable Units*

*Density Bonus Requirement: 20 Affordable Units*

*Proposed SB 35 Project: **55 Affordable Units***

*(50% of Base units; 37% of total units)*



## Clustering

831 Water St.  
Santa Cruz



*Santa Cruz's Inclusionary Housing policy requires affordable units be distributed throughout a project.*

*Sponsor requested waiver of this requirement as a concession under the state density bonus*



# Phasing Affordable Projects

**Brooklyn Basin**  
Oakland

- *Development agreement requires 465 units of affordable housing*
- *Affordable housing is being built in 4 phases over at least 7 years*
- *Nonprofit developer (Midpen housing) could not move all 4 projects at the same time due to limited state and federal funding*



## Possible Best Practice

1. *Require affordable units - at reasonable level based on feasibility study*
2. *Work with developers to facilitate use of density bonus and/or SB 35 if appropriate*
3. *Allow clustering of affordable units in exchange for greater number or more depth of affordability*
4. *Ensure a meaningful financial contribution from market rate project*
5. *Provide local affordable housing subsidy in order to achieve even higher number of units or greater affordability*

Image: Tasman East, Santa Clara, CA



# Questions/Discussion



Image: Milpitas Metro



# Thank You!

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