City of Emeryville
CALIFORNIA

MEMORANDUM

DATE: October 1, 2019

TO: Christine Daniel, City Manager

FROM: Charles S. Bryant, Community Development Director

SUBJECT: Study Session on Planning Regulations Amendments for Unit Mix and Design, and Distribution of Affordable Units

RECOMMENDATION

Staff requests that the City Council consider the discussion questions below on unit mix and design, and distribution of affordable units, for high-rise buildings and provide direction.

BACKGROUND

At the City Council meeting on October 16, 2018, the Council directed that the Planning Commission reconsider the Planning Regulations unit mix requirements for residential buildings that are taller than the California Building Code allows for wood-frame construction. In this context, staff also identified an additional regulation to be examined, namely, the minimum separation of buildings over 100 feet tall, or "tower separation". The Planning Commission held a study session on these issues on December 13, 2018, and the City Council held a study session on February 5, 2019.

At these study sessions, both the Planning Commission and City Council unanimously expressed support for modifying the tower separation requirement. Therefore, an ordinance to implement this Commission and Council direction was prepared and recommended for approval by the Planning Commission on May 23, 2019. First reading of the ordinance by the City Council occurred on July 9, 2019, with final passage on July 23, 2019; the ordinance took effect on August 22, 2019 (Ord. No. 19-009).

Concerning unit mix and design, the consensus of the Planning Commission at their December 13, 2018 study session was to modify the requirements for buildings over 100 feet tall to require fewer two- and three-bedroom units, and to allow more studio units. At the City Council study session on February 5, 2019, a majority of the Council also appeared to favor this option. However, before giving direction on this issue, the Council requested additional information on the effects of unit mix on the financial feasibility of high rise developments. In response to this request, staff has engaged consulting architect Arnold Mammarella and economic consultants Keyser Marston Associates to prepare the analysis. Their conclusions are presented below. The staff report from the Council's February 5, 2019 study session is attached for reference. (See Attachment 1.)

DISCUSSION

Scenarios Analyzed

The analysis focused on a hypothetical development site in the "core" area in the vicinity of Powell Street and Christie Avenue, where the allowed residential density, floor area ratio (FAR), and building height are the highest in the City. The hypothetical site is three acres (300 feet by 435.6 feet) surrounded on all sides by streets. The zoning is MUR Mixed Use with Residential/TH Transit Hub Overlay. The allowed residential density is 85 units per acre (base)/170 units per acres (bonus). The FAR is 3.0 (base)/6.0 (bonus). The height limit is 75 feet (base)/100+ feet (bonus). Each scenario includes about 20,000 square feet of ground floor retail space and meets the City's parking, loading, bicycle parking, and open space requirements. Affordable units and community benefits are provided based on the City's development bonus system.

While the purpose of this analysis is to focus on variables affecting the financial feasibility of high-rise construction, a mid-rise scenario was also included as a "base line" condition, since it is the most common multi-family residential building type in Emeryville. For the high-rise scenarios, two variables were analyzed: unit mix and distribution of affordable units, as discussed below.

Unit Mix. Article 20 of Chapter 5 of the Planning Regulations currently requires that all residential developments of 10 units or more include at least 50% two-bedroom or larger units, with at least 15% three-bedroom or larger units (part of the 50%), and no more than 10% studio units. The regulations further stipulate that all required two- and three-bedroom units shall comply with the applicable provisions of the Emeryville Design Guidelines pertaining to Family-Friendly Residential Unit Design. For purposes of this analysis, an alternative unit mix was considered for buildings over 100 feet tall, which would require at least 30% two-bedroom or larger units, with at least 5% three-bedroom or larger units (part of the 30%), and no more than 20% studio units. As under the current regulations, all required two- and three-bedroom units would need to comply with the Family-Friendly Design Guidelines, although there would be fewer such units.

Distribution of Affordable Units. Keyser Marston has also identified distribution of affordable units within the project as an important factor affecting financial feasibility. They recommend considering a provision similar to San Francisco's that allows affordable units to be limited to the lower two-thirds of high-rise buildings, with only market rate units located on the upper one-third of the floors. Specifically, Section 415.6(f)(1) of the San Francisco Planning Code states, in part, "For buildings over 120 feet in height, as measured under the requirements set forth in the Planning Code, the affordable units may be distributed throughout the lower 2/3 of the building, as measured by the number of floors." Emeryville's Planning Regulations actually include a similar provision for projects that use the State Density Bonus Law; Section 9.5.509(c) states, in part: "…premium units such as penthouses, and top floor view units shall not be required to be available as affordable … units." For purposes of this analysis, a provision similar to San Francisco's, limiting affordable units to the lower two-thirds of the building, has been used. So, for

example, in Scenarios 3a, which is 48 floors, the affordable units would be on all floors up to the 32nd floor, while only market rate units would be on floors 33 through 48.

The analysis looked at a total of five different scenarios, one mid-rise and four high-rise, as follows:

- Scenario 1: Mid-rise with City's current unit mix requirement (50% 2+ bedrooms)
- Scenario 2a: High-rise with City's current unit mix requirement (50% 2+ bedrooms) and affordable units on all floors
- Scenario 2b: High-rise with lower unit mix requirement (30% 2+ bedrooms) and affordable units on all floors
- Scenario 3a: High-rise with City's current unit mix requirement (50% 2+ bedrooms) and affordable units on lower two-thirds of floors
- Scenario 3b: High-rise with lower unit mix requirement (30% 2+ bedrooms) and affordable units on lower two-thirds of floors

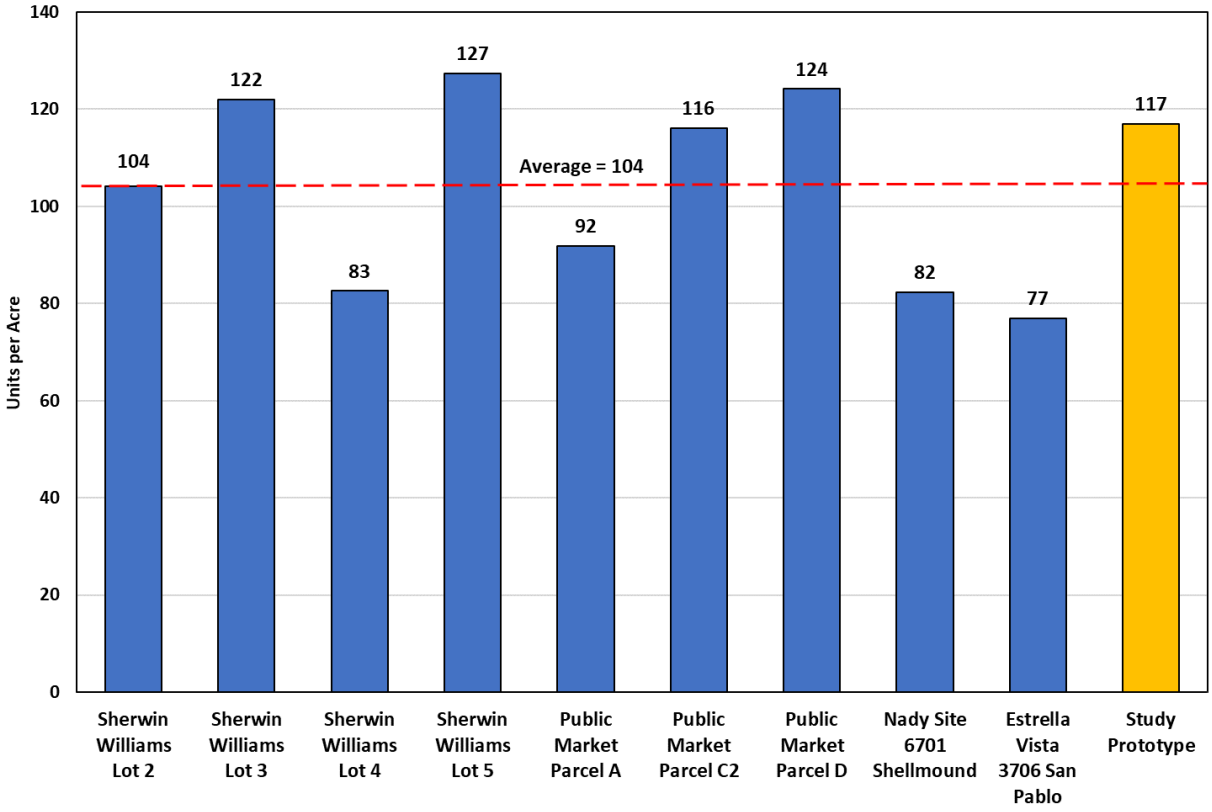
Hypothetical Building Designs

The consulting architect, Arnold Mammarella, began by designing hypothetical buildings meeting these criteria for each of the scenarios. (See Attachment 2.) The unit mix variations affected the high-rise design because, with a lower percentage of 2+ bedroom units, it is possible to fit more units on each floor and therefore the building is shorter. However, the distribution of affordable units in the building does not affect the high-rise design because affordable units and market rate units are assumed to be physically identical. Therefore, the designs of Scenarios 2a and 3a are the same, and the designs of Scenarios 2b and 3b are the same. Thus, there are no separate drawings for Scenarios 3a and 3b; only Scenarios 2a and 2b are illustrated in the drawings.

Given the maximum bonus density of 170 units per acre, a three acre site should be able to accommodate 510 units. However, in attempting to design a mid-rise building for this hypothetical site, Mr. Mammarella found that it was not possible to fit more than about 350 units in a mid-rise prototype (five floors of wood-framed units over a two-story concrete podium). To confirm this, staff reviewed nine mid-rise residential projects recently approved in Emeryville, as illustrated in Figure 1 below.

As this shows, the density of these nine projects ranges from 77 to 127 units per acre, with an average of about 104 units per acre. Mr. Mammarella's hypothetical mid-rise prototype is about 117 units per acre, above the average of these recent projects, but well below the maximum density of 170 units per acre permitted in the core area of the City.

Figure 1:
Residential Density of Recent Emeryville Mid-Rise Projects



Thus, the first take-away from this analysis is that, in order to maximize residential density in the City's core area, it is necessary to go to high-rise construction because that level of density simply will not fit in a mid-rise building.

The high-rise scenarios all maximize the residential density at 170 units per acre, which equals 510 units on this three acre site.

The building scenarios are summarized below, and are described in more detail in Attachment 2:

Scenario 1: Mid-rise building with 350 units in "5 over 2" construction (five stories of wood-frame over two-story concrete podium). Unit mix includes 15% 3-bedroom, 35% 2-bedroom, 40% one-bedroom, and 10% studios, in conformance with the City's required unit mix[1]. Average unit size is about 1,043 square feet and FAR is about 3.67. Because this project does not maximize the available residential density, FAR, or height, it only

[1] The actual unit mix of the prototype buildings varied slightly from these percentages due to the way the units laid out, with Scenario 1 containing 52.0% 2+ bedroom units, Scenarios 2a and 3a containing about 51.6% 2+ bedroom units, and Scenarios 2b and 3b containing about 34.1% 2+ bedroom units.

requires 37 development bonus points, which would equate to a requirement of 14% affordable units (49 units) and community benefits worth 1.7% of construction valuation.

Scenarios 2a and 3a: High-rise building with 510 units in a steel-frame tower 48 stories tall, not including the mechanical penthouse. Unit mix includes 15% 3-bedroom, 35% 2-bedroom, 40% one-bedroom, and 10% studios, in conformance with the City's required unit mix[1]. Average unit size, inclusive of 15 larger penthouse units, is about 1,048 square feet and FAR is about 5.55. Because this project needs 100 development bonus points for height over 100 feet and maximum residential density, it would require 17% affordable units (87 units) and community benefits worth 5% of construction valuation. Scenario 2a would have affordable units spread throughout the project, while Scenario 3a would have affordable units only on the lower two-thirds of the building.

Scenarios 2b and 3b: High-rise building with 510 units in a steel-frame tower 43 stories tall, not including the mechanical penthouse. Unit mix includes 5% 3-bedroom, 25% 2-bedroom, 50% one-bedroom, and 20% studios, modified from the City's current required unit mix[1]. Average unit size, inclusive of 14 larger penthouse units, is about 936 square feet and FAR is about 5.02. Because this project needs 100 development bonus points for height over 100 feet and maximum residential density, it would require 17% affordable units (87 units) and community benefits worth 5% of construction valuation. Scenario 2b would have affordable units spread throughout the project, while Scenario 3b would have affordable units only on the lower two-thirds of the building.

Financial Feasibility

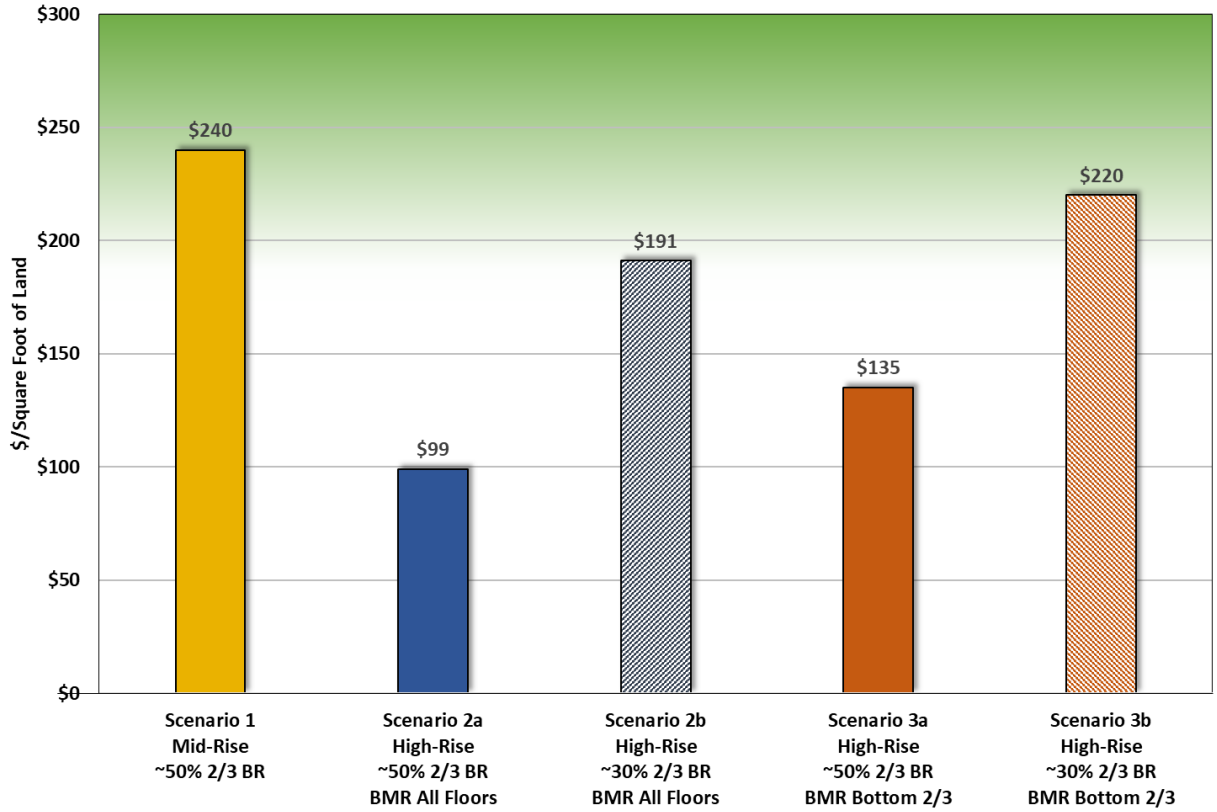
Keyser Marston then analyzed the financial feasibility of these five scenarios, using various assumptions based on recent residential development in Emeryville and surrounding communities. (See Attachment 3.) The analysis assumed a return on cost of 5.05%, which reflects the current investor return requirements for new multifamily apartment projects in the San Francisco Bay Area. A pro forma analysis was prepared for each scenario that models the costs to develop the project, rental income generated by the project, and the financial return or profit that the project will generate. For purposes of this analysis, the pro forma is structured as a "residual land value" analysis, in which each scenario's development costs are subtracted from its investment value to determine the residual value available for land acquisition. This is then compared to recent land sales in the area to determine whether the project's economics would support the necessary land acquisition at current market prices. Recent land transactions for residential development in the Oakland-Berkeley-Emeryville area have averaged around $238 per square foot. Although this is by no means a "hard and fast" number, projects that support a land transaction cost closer to this value would be considered more financially feasible than projects that support a lower land transaction cost.

Keyser Marston's analysis indicates that Scenario 1, the mid-rise scenario, would support a land value of about $240/square foot, in line with the average of recent transactions in the area. Furthermore, Keyser Marston analyzed the per-square-foot rents for Scenario 1 and found them to be comparable to other recently developed residential projects in the

Oakland-Berkeley-Emeryville area. (See Table 12 of Attachment 3.) This is an important "reality check", because it indicates that the hypothetical mid-rise building developed by Mr. Mammarella is realistic and reflects the financial feasibility of the many other mid-rise developments recently approved or built in and around Emeryville.

However, none of the high-rise scenarios would support as high a residual land value, even assuming a "rent premium" of 5% for a high-rise building and a "view premium" increase in rents of 0.75% per floor for units located above the seventh floor. Scenario 2a, with the City's currently required unit mix and affordable units on all floors, would yield a residual land value of only $99 per square foot. Modifying the required unit mix to 30% 2+ bedroom units (Scenario 2b) would increase the residual land value to $191 per square foot. Allowing affordable units to be limited to the lower two-thirds of the building, while maintaining the City's currently required unit mix (Scenario 3a) would have a lesser effect, but would still increase the residual land value to $135 per square foot. Both limiting affordable units to the lower two-thirds of the building and modifying the required unit mix to 30% 2+ bedroom units (Scenario 3b) would yield a residential land value of $220 per square foot, and is the only scenario that approaches financial feasibility. This is illustrated in Figure 2, in which the green shading at the top represents residual land values approaching financial feasibility.

Figure 2:
Residual Land Value of Study Scenarios



Based on their analysis, Keyser Marston concludes that "development economics of high-rise apartment projects could be significantly improved if the City modifies some of its regulations, including:

1. reducing the required percentage of two- and three-bedroom units; and
2. relaxing the requirement that affordable units be evenly distributed throughout the development.

With changes to these policies, it is estimated that the development economics of high-rise construction would approach the economics of mid-rise construction."

Discussion Questions

Staff requests the Council's direction on the following discussion questions:

1. Does the Council wish to modify the unit mix regulations for buildings over 100 feet tall to require at least 30% two-bedroom or larger units, with at least 5% three-bedroom or larger units (part of the 30%), and no more than 20% studio units?

2. Does the Council wish to modify the Affordable Housing Program to allow affordable units to be limited to the lower two-thirds of buildings over 100 feet tall?

3. Are there other issues related to high-rise development that need to be addressed? If so, how should they be addressed?

CONCLUSION

Following this study session, based on the direction from the Council, staff will prepare an ordinance with proposed modifications to the Planning Regulations for future consideration by the Planning Commission and City Council.

APPROVED AND FORWARDED TO THE
CITY COUNCIL OF THE CITY OF EMERYVILLE:

Christine Daniel, City Manager

ATTACHMENTS

1. Staff Report from February 5, 2019 City Council Study Session
2. Hypothetical Building Designs, prepared by Arnold Mammarella, Architecture + Consulting, dated June 10, 2019
3. Financial Feasibility Analysis of Hypothetical High-Rise Residential Prototypes, prepared by Keyser Marston Associates, dated August 12, 2019