City Planning Commission
Sacramento, California

Members in Session:

Subject: **Report Back on Two Major Project Early Reviews - Crystal Ice and 16th Street Station (ER92-005 & ER92-007)**

Location: **Both sides of R Street between 16th and 17th Streets; South side of R Street between 17th and 18th**

SUMMARY

This report addresses comments and requests for additional information from the Planning Commission raised at the February 25th hearing on the Early Policy Review for the two proposed office projects at 16th and R Streets. Staff's recommendation remains the same. Based on the results of the housing feasibility analysis recently completed by SHRA, and in keeping with mixed use project approvals in the R Street Corridor (i.e. Pacific Plaza), staff recommends a change in the Preferred Alternative policy as it applies to these sites (a 1:1 office to housing ratio) to provide for a 3:1 office to housing ratio for these projects, and a reduction in the proposed intensity of use to improve the projects' compatibility with surrounding neighborhoods. These changes are consistent with the Planning Principles established for the R Street Corridor. This would require a mixed use redesign of the proposed projects.

BACKGROUND

AKT Developments and the JB Company have separately requested Early Policy Review for the development of ten-story office buildings within the R Street Corridor. AKT Developments' "Crystal Ice" project consists of two ten-story towers having a combined square footage of 550,200 square feet, located on two half-blocks on the south side of R Street between 16th and 18th Streets. JB Company's "16th Street Station" proposal consists of a single ten-story building having 227,500 square feet, located on the north side of R Street between 16th and 17th Streets. The sites are zoned and designated for Heavy Commercial use. No housing is proposed for these projects. The R Street Preferred Alternative designates the sites between 16th and 17th Streets "General Commercial Mixed Use" (1:1 office to housing ratio), while the site between 17th and 18th is designated "Residential Mixed Use." These combined proposals could cumulatively add approximately 778,000 square feet of office space in this location.

A. Summary of Major Policy Considerations

A detailed discussion of policy issues applicable to both projects was presented in the February 25th staff report. For the Commission's convenience, the major policy issues are summarized below.

- Consistency with mixed use policies encouraging the provision of housing - the projects lack a housing component of any kind, contrary to adopted policy and stated planning principles contained in the R Street Corridor Preferred Alternative, as well as recent approvals of other projects within the Corridor

- Compatibility with surrounding neighborhood uses - the proposed building heights exceed other office development in the vicinity and particularly east of 16th Street, as well as the 75 foot height limit recommended in the Preferred Alternative, and could significantly impact nearby residential neighborhoods

- Consistency with Urban Design Plan/Competition with CBD - while the Urban Design Plan encourages more intensive development near light rail stations, office buildings of this scale and size located outside the CBD may compromise city goals of maintaining and strengthening the CBD's role as a major regional office, governmental, and employment center

- Compliance with City policies to meet State office needs - the projects are intended to meet the office needs of smaller State agencies within the central city

- Relationship between land use and transit - the projects could support transit ridership, however, there are transit/pedestrian linkages which need to be resolved

- Compliance with parking policies supporting public transportation - given the proximity to a LRT station, the number of parking spaces proposed should be substantially reduced to promote transit use, thereby reducing traffic congestion and air quality impacts

Staff presented recommendations to the Planning Commission at the February 25th meeting but, at the request of the applicants, the hearing was continued to allow additional time for the applicants to review the housing feasibility analysis. At that meeting, the Commission raised a number of questions, and requested information on specific items. These are discussed below.

B. Development Alternatives

For the previous report, staff prepared a matrix comparing five development alternatives for each project (Attachment G). To briefly reiterate, alternative 1 is the proposed project, while alternative 2 is a project that would be developed under existing C-4 zoning, with no special permits or variances. This would consist of single-story warehouse structures covering the entire site, and having the allowable 25% office space.

Alternative 3 would have an office to housing ratio of 4:1, and would consist of 6-story office buildings with ground floor retail along 16th Street. The housing component would be located off-site on another lot within the R Street Corridor.

Alternative 4 would consist of 5-story office buildings along 16th Street, and a 71-unit residential project on the east Crystal Ice site. The JB Company would be responsible for a total housing commitment of 41 units, while AKT Developments would be responsible for 55 units. This alternative was evaluated by the economic consultant for R Street and found to be financially feasible at a 17.3% internal rate of return. This analysis is described in greater detail in an accompanying report from SHRA. Alternative 4 has an office-housing ratio of 3:1, and is the alternative supported by staff.

Alternative 5 reflects the R Street Preferred Alternative, and consists of two mixed use buildings containing a 1:1 mix of office and housing along 16th Street (within the "General Commercial Mixed Use" designation, and a third building on the east Crystal Ice site containing approximately 70 housing units and up to 18,000 square feet of ground floor commercial. This alternative is not financially feasible at this time.

RESPONSE TO COMMISSION COMMENTS/REQUESTS

A. Present and Future Land Uses Within 660' Radius of 16th St. LRT Station

Staff has prepared two maps (Attachments A and B). Attachment A shows that the existing mix of land uses surrounding the 16th St. LRT station include residential, commercial, office, heavy commercial & warehouse, and parking lots/garages. Some parcels are vacant. The most abundant land use in terms of square footage is office, at approximately 503,000 square feet, 78% of which is Benvenuti Plaza. Residential is second, with 274± units, followed by heavy commercial/warehouse at 153,000 square feet. There is approximately 37,000 square feet of commercial, mostly represented by Orchard Supply Hardware and Fuller O'Brien Paints.

Assuming an average dwelling unit size of 875 square feet, the 274 housing units could be estimated to be approximately 240,000 square feet. Thus, within the 660' radius of the 16th St. LRT station, there is presently an office-to-housing ratio of slightly less than 2:1.

Attachment B shows the type and mix of land uses we could expect at buildout of the area, if the Capitol Area Plan is implemented and policies for mixed use development within the R Street Corridor and around LRT stations are carried forward. The sites determined to be not susceptible to new development include the Benvenuti Plaza complex and a number of half blocks presently zoned R-3A or R-O and developed with significant housing, some of it owned by CADA. The half block on the south side of Q Street, immediately north of the LRT station, is zoned R-O and developed with Victorian-era housing units, some of them priority structures on the City's inventory. These are not likely to be replaced with new uses.

The opportunities for new residential mixed use development include the blocks generally west of 15th Street and south of the Q-R alley, and east of 17th Street, south of Q Street. These areas could accommodate approximately 260 new dwelling units, assuming average net densities of about 40 units per acre. Added to the existing 274 units, the total housing units within a 660' radius of the 16th St. LRT station would be 534, or equivalent to 467,250 square feet.

The remaining blocks within the 660' radius are either slated for state offices in the Capitol Area Plan or else are probably more appropriate for new office development. The latter would include the 16th St. Station and west Crystal Ice sites. Using the office figures from the 1992 Capitol Area Plan Progress Report, along with the staff-recommended numbers for 16th St. Station and Crystal Ice office buildings, the total amount of new office space would be approximately 560,000 square feet. Added to the existing 503,000 square feet, the total office space within the 660' radius would be 1,063,000 square feet. The office to housing ratio would then be roughly 2.3:1.

If the two office projects are approved and developed as proposed, the total amount of office space would be at least 1,556,000 square feet (the term "at least" is used because it is likely that other nearby office developments would be larger in size as well). Because land assumed for housing would be taken up by office development, the number of housing units would probably decrease by at least 70 units, to about 460. With these figures, the office to housing ratio would be about 3.8:1.

Staff has also prepared cross sections (Attachments C and D) in order to show relationships between the proposed ten-story towers and surrounding existing buildings, and comparisons to the Preferred Alternative.

B. Breakout of Residential Development Fees

Fees were calculated for a hypothetical 70-unit multi-family residential project on a half-block site in the central city (density of approximately 60 units/acre) (Attachment E). The units were assumed to have an average 875 gross square feet, and be evenly split between one and two bedrooms. Based on a building valuation of roughly $5 million, and assuming that the project requires a Special Permit and Variance, the fees would amount to $5,946 per unit. This represents approximately 6% of total development costs. In contrast, fees for single family projects are approximately $13,000 per unit, or 9% of total project costs. If no planning entitlements are necessary, other than Design Review, the per unit cost would be $5,881, a relatively minor change.

As indicated in Attachment E, the major fees include school impact, park (Quimby), sewer development, street construction tax, building permit and plan check fees. The water development fee of $9,880 could be waived under residential infill provisions.

C. Parking Data for Benvenuti Plaza and Potential for Shared Parking

Benvenuti Plaza, completed in 1988, consists of a five-story 393,500 square foot office building, and a separate parking garage with 844 spaces. According to the Transportation Management Plan on file with the City, Benvenuti Plaza was required to have 1,029 parking spaces, but was entitled to a reduction of 185 spaces through the provision of a number of trip reduction measures. Some of the more notable measures included the payment of $240,000 toward construction of the 16th Street LRT station, the provision of showers and lockers for bicycle commuters, a $60,000 subsidy for preferential parking programs in adjacent neighborhoods, and the provision of ground-floor retail along 15th and 16th Streets. These TSM measures were implemented, although some of the ground-floor space intended for retail has since been leased by state agencies.

Benvenuti Plaza is presently fully leased, except for a small amount of ground-floor space available along 15th Street. The parking garage has eight levels, the eighth being the rooftop deck. There is a charge for parking, starting at 50 cents for the first half-hour, then $1 per hour up to a maximum of $6 per day. It is interesting to note that the on-street parking located on both sides of R Street between Benvenuti Plaza and the parking garage is free all day, with no time limits or other restrictions.

To get an idea of how much parking is used (or available), staff surveyed the garage at 3:00-3:30 p.m. on a Tuesday, a time at which the maximum number of vehicles could reasonably be expected (well after the lunch period but before the end of a normal work day, assuming that some employees may leave work at 4:00 p.m.). Of the 844 total spaces, 236 were empty, excluding the handicap spaces and the two reserved for the building owner. This represents a parking vacancy factor of approximately 28%. The rooftop deck was totally empty, and levels six and seven were approximately half empty. There were scattered spaces available on levels three, four and five, and levels one and two were essentially full.

Discussions with the leasing agent for the building confirmed that the rooftop deck is always empty, and that level seven is usually half empty. Given that the office building is fully leased, it would appear that there is a reliable surplus of at least 175 parking spaces available that could be used to satisfy some of the parking need of the proposed 16th Street Station office building across the street. This would in turn reduce the parking requirement for that building, thereby eliminating one and a half levels of parking (@ approximately 115 spaces per level), and result in cost savings to the developer as well as a shorter building.

D. State Leasing and Parking Requirements

Staff contacted the State Office of Real Estate and Design Services (OREDS) to inquire about state leasing and parking requirements, as they might have bearing on the two R

Street projects. OREDS is responsible for procuring lease space for the majority of state agencies throughout California. Specifically, the three questions asked by the Commission were: 1) What are the state's parking requirements for leased space?; 2) How does the state feel about restrictions against state purchase being placed on certain buildings, such as the proposed Pacific Plaza project?; and 3) Would the state be interested in leasing two different adjacent properties to house a single agency, or several smaller agencies?

1. Parking - The state has no specific parking requirements per se. Generally, the amount of parking desired by agencies depends on the characteristics of that particular agency (e.g. the Dept. of Justice requires secured parking for its attorneys), proximity to public transit, downtown vs. suburban location, and other factors. It is the state's policy not to provide employee parking, which is instead provided by Fleet Management based on certain employee contracts. This means that employees of some agencies have free parking, while others do not.

2. Restrictions on future purchase of specific buildings - Under the current Administration, the goal is for the state to end up in an equity position with regard to building ownership, thus the state does not look favorably on restrictions which may preclude the option of a future building purchase. The appropriation of funding for adequate long-term maintenance of state-owned facilities has been a primary limiting factor to new acquisitions in the past. Over the longer term, state ownership of its facilities makes good economic sense, so long as the structures are properly maintained. Currently, a number of state properties in Sacramento and elsewhere in California are in poor shape due to deferred maintenance, in some cases to the point that demolition may be the only financially viable solution.

3. Leasing of separate buildings to house one or more agencies - The state generally prefers a single building to house at least one agency, but is open to shared space arrangements or having an agency occupy space in two or more adjacent buildings. It really depends upon the particular needs of an agency. For larger agencies, the optimum floor plate is about 50,000 square feet, although a desirable size may range from 30,000 to as much as 75,000 square feet. Seldom does an agency require a floor plate larger than 75,000 square feet.

   If each of the two office buildings proposed along 16th Street were reduced to 125,000 (16th St. Station) and 165,000 (Crystal Ice) square feet, they could accommodate one or more agencies requiring a combined office area of about 280,000 square feet. There are a number of smaller agencies needing between 30,000 and 100,000 square feet; these agencies and their space and location needs will be evaluated in the Phase 2 Strategic Facilities Plan, to be completed later this year. (The Phase 1 plan is being provided to the Commission along with this report.)

E. Central City Rental Vacancy Rates

The R Street Corridor Financial Feasibility Study prepared by Bay Area Economics assumed a vacancy rate of 5% for residential rental properties in the central city. This number was questioned by some Commissioners who thought it was unrealistically low, and not representative of the rental market. The most recent vacancy figure available for the central city is 8.5%, for the 4th quarter of 1992 (CB Commercial). Because the vacancy figures are based on the total number of units reported, which can vary widely quarter to quarter, the vacancy rates tend to fluctuate widely as well, evidenced by the numbers for each quarter of 1992:

Quarter	# of Units Reported	Vacancy Rate
1st	861	9.9
2nd	976	5.9
3rd	1,248	9.0
4th	N/A	8.5

Source: CB Commercial

Furthermore, while *overall* residential rental vacancies are presently somewhat high, vacancy rates are actually quite low for higher-quality, well maintained apartment projects. Vacancy rates for CADA rentals can also fluctuate widely but tend to be very low during periods when the Legislature is in session. The most recent vacancy figures for CADA rentals are: 3% in February 1993; 5% in January 1993; and 4% in December 1992.

Attachment F is a listing of selected rental projects in the Central City, compiled by Bay Area Economics, which shows that vacancy rates for these newer higher-quality rental projects are in the 0-5% range. It is staff's belief that the types of new rental projects that would be constructed over the next 10 years would compete with these projects, not the older, less desirable rental housing stock that tends to drag the overall vacancy factor down. This opinion was confirmed in discussions with CB Commercial and CADA. In conclusion, it is staff's opinion that a 5% vacancy assumption for new rental housing development is reasonable.

F. Other New Information

1. R Street Corridor Financial Feasibility Study and Market Overview

A consultant has prepared a financial feasibility and market study for housing in the R Street Corridor. This analysis suggests that a 3:1 office-housing ratio is economically feasible at 16th and R Streets. The full study is included in a accompanying report prepared by SHRA.

2. R Street Corridor Toxics Reconnaissance Study

A separate consultant has conducted a study to provide information on sites in the Corridor with known or potential contamination problems and possible mitigation measures that could be implemented. The full study is also included in an accompanying report. With regard to the subject sites, no known or potential contamination problems have been identified for the Crystal Ice properties, whereas a small portion of the 16th St. Station site could potentially have been contaminated with one or more substances used by a former metal plating business. The consultant found no record of investigation or clean up of the site, however, further analysis would be performed prior to development of that site. The results of this preliminary study indicate that the Crystal Ice sites appear to have no constraints to residential development.

3. Transit Ridership

Staff obtained passenger boarding figures from Regional Transit for the 16th Street LRT station and four bus lines serving the immediate area around 15th, 16th, Q, R and S Streets. For the LRT station, the average number of daily (M-F) boardings is 342; no exit figures are available. Regional Transit staff believes this represents a fairly high level of ridership, and will likely increase significantly in the future when the South Area LRT extension is constructed. Bus ridership, on the other hand, is not very high in comparison to LRT: only 37 daily boardings, and 68 exits.

RECOMMENDATION

Staff recommends that the Planning Commission consider the information in this report, and recommend to the City Council that the 16th Street Station office proposal be modified as follows:

A. Residential Component

- Add a housing component based on the housing feasibility analysis that provides for a 3:1 office to housing ratio.

- Locate the housing on the Crystal Ice eastern site (in cooperation with AKT Developments) and other nearby locations within the R Street Corridor, to maximize mixed use development opportunities that support transit.

B. Height and Scale of Office Component

- Reduce the building height to no more than 75 feet to provide more urban design compatibility with adjacent uses and a transition in the scale of development between the CBD and residential neighborhoods.

C. **Land Use/Transit Relationships**

- Support ground floor retail uses, transit orientation of public entrances, improved pedestrian linkages to the 16th Street Station to ensure safety and transit usage, and incorporate improved bus access into project design.

D. **Parking Component**

- Further reduce the amount of parking provided, in keeping with recent parking reductions for projects adjacent to light rail stations, in order to encourage transit ridership.

E. **Crystal Ice Project**

- Work with the Crystal Ice project developer to optimize the unique mixed use development opportunities near the 16th Street LRT station.

Respectfully Submitted,

Steve Peterson

Steve Peterson
Senior Planner

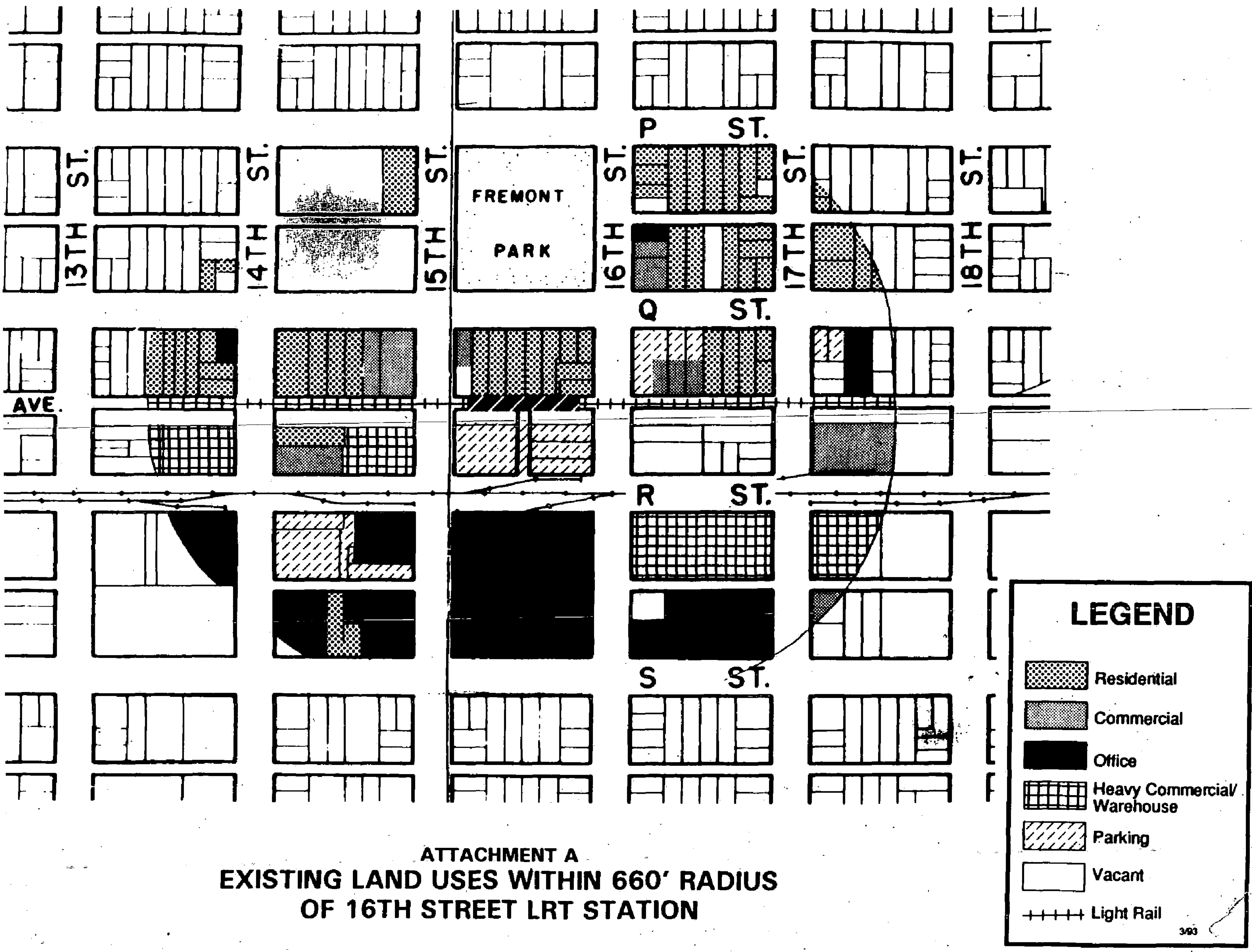
Report Prepared by:

Jeff Archuleta

Jeff Archuleta
Associate Planner

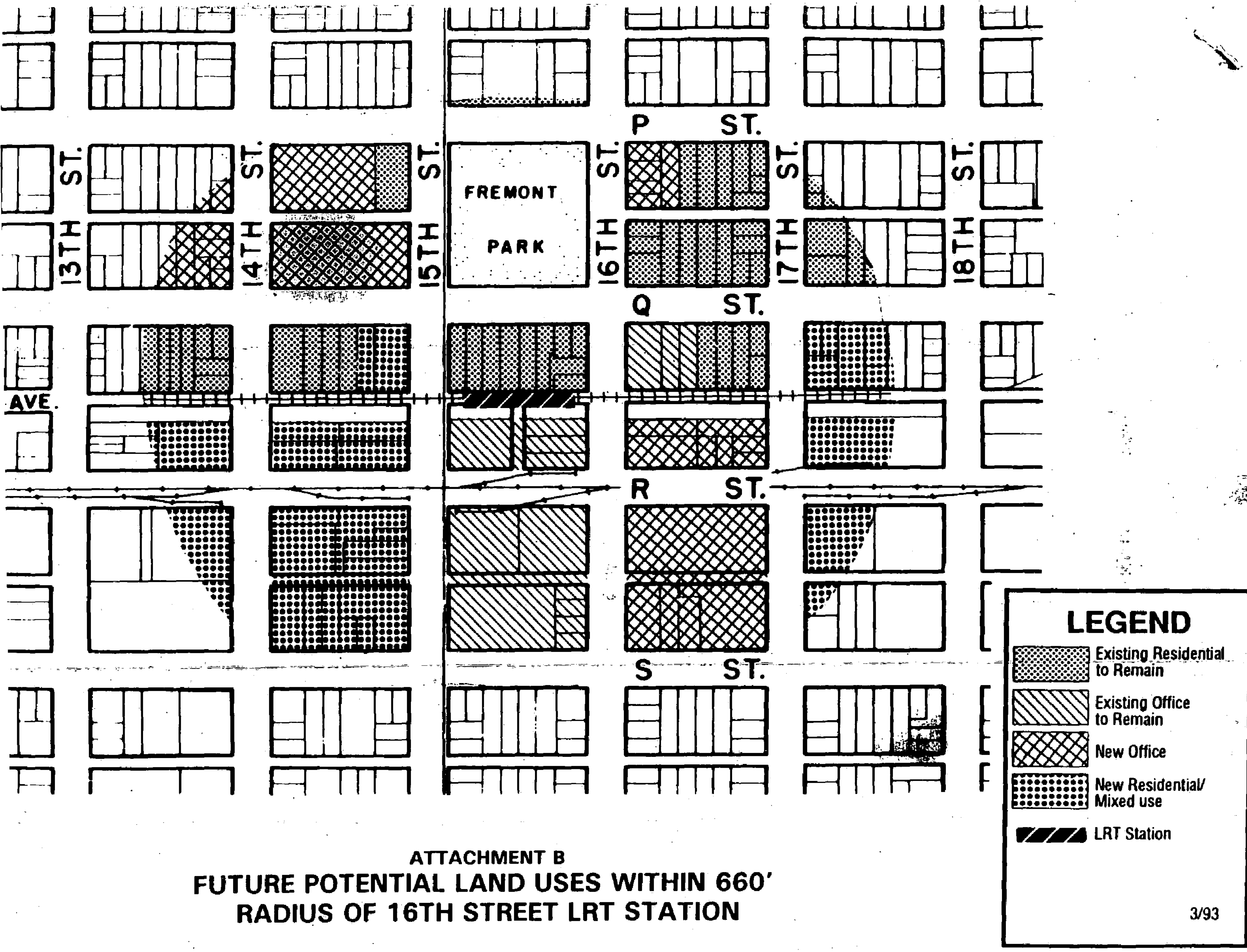
Attachments:

A. Existing Land Uses Within LRT 660' Radius
B. Future Potential Land Use Within LRT 660' Radius
C. Cross Section From Q to S Street
D. Cross Section From 15th to 18th Street
E. 1993 Government Fees For A 70-Unit Multi-Family Development
F. Selected Existing Downtown Rental Projects
G. Project Development Alternatives



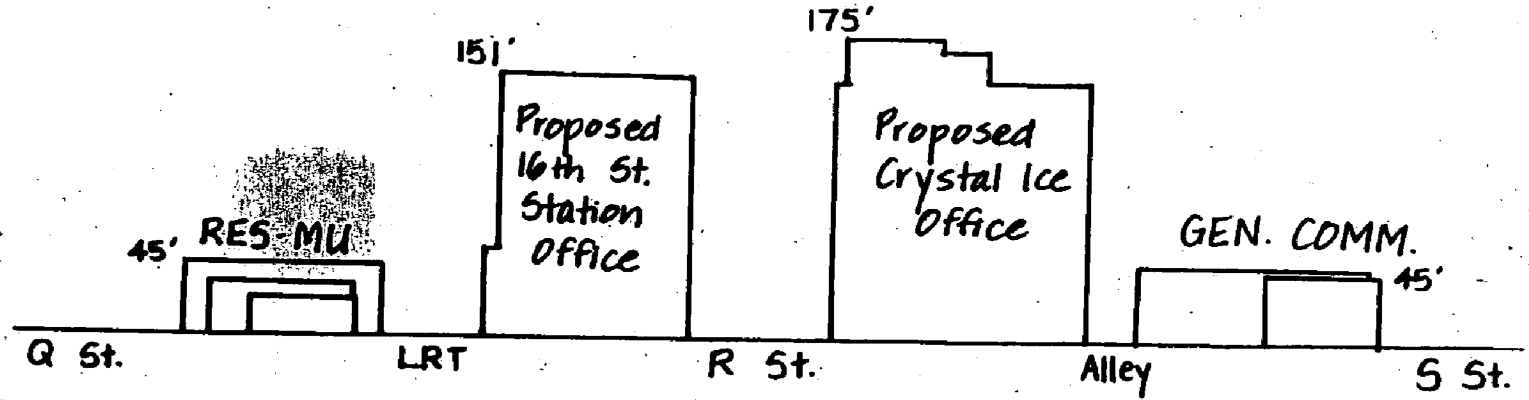
ATTACHMENT A

EXISTING LAND USES WITHIN 660' RADIUS OF 16TH STREET LRT STATION

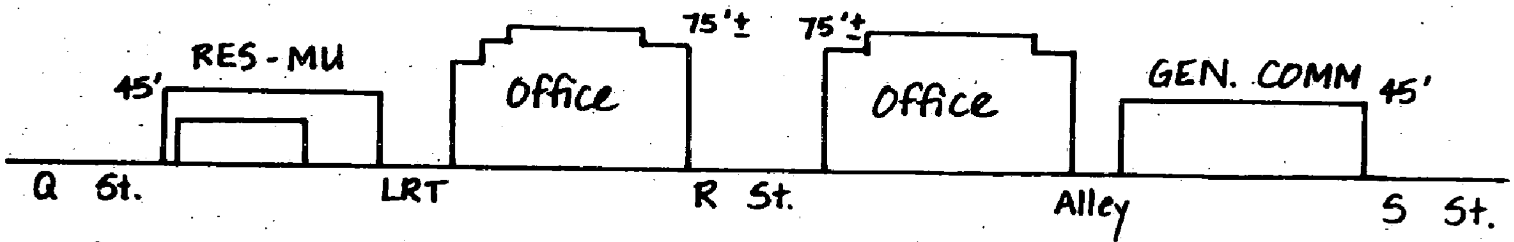


ATTACHMENT B
FUTURE POTENTIAL LAND USES WITHIN 660' RADIUS OF 16TH STREET LRT STATION

FR 92-005 & 007
2-25-92
ITEMS 5 & 6



PROPOSED PROJECT



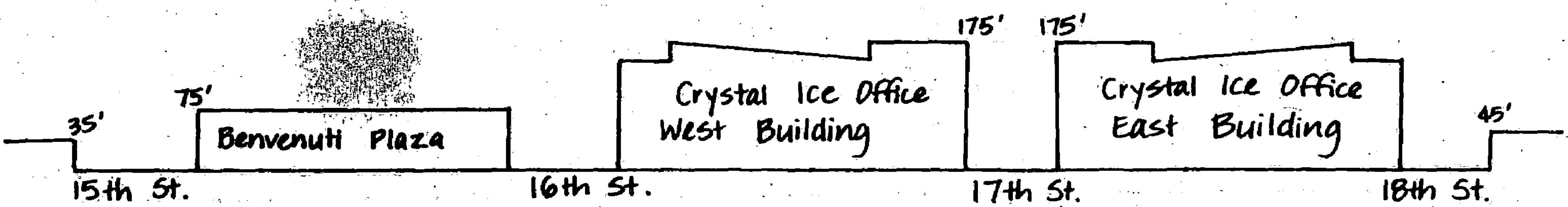
STAFF ALTERNATIVE

ATTACHMENT C
CROSS SECTION FROM Q TO S STREET

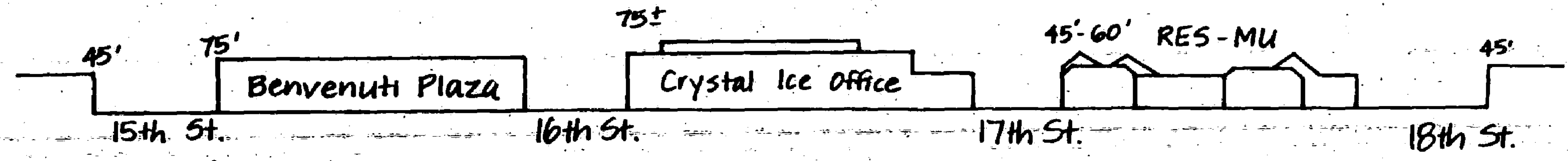
ER 92-005 & 007

3-25-93

ITEMS 5 & 6



PROPOSED PROJECT



STAFF ALTERNATIVE

ATTACHMENT D

CROSS SECTION FROM 15TH TO 18TH STREET

ATTACHMENT E

1993 GOVERNMENT FEES FOR A 70-UNIT MULTI-FAMILY DEVELOPMENT

FEE TYPE		TOTAL AMOUNT
Planning Fees		
	Special Permit/Variance (if needed)[1]	$3,475
	Negative Declaration	1,010
	Design Review	785[2]
Engineering		
	Water Development[3]	
	Sewer Development[4]	52,640
	Quimby Fees	61,600
	Engineering[5]	200
Building		
	Plan Check	25,370
	Building Permit	31,000
	Major Street Construction Tax (0.8% of permit valuation)	40,000
	Seismic Motion Instrumentation	900
	Business License	1,500
	School Impact ($2.65/sq. ft.)	162,313
	Residential Construction Tax	19,775
	Technology	2,226
	Residential Construction Tax	240
	Water Development Fee (May be waived under infill)	9,880
	Water Tap and Meter (4" service)	3,284
	Grand Total	$295,118
	Per Unit	$5,946

Assumptions

1. 1.2 acre half-block
2. Units average 875 GSF
3. Unit mix 50%, 1 bedroom, 50%, 2 bedroom
4. Building Valuation $5,000,000. Land Value $10/sq. ft. ($435,000/acre)

Notes

1. Special Permit not necessary if site is zoned to allow Multi-family development.
2. Base fee, staff fee @ $81 hourly as needed may be added.
3. Assumes the street frontage improvements are in place. Service provided via 4" infrastructure.
4. Total reflects capital investment equalization fee @ $752 per unit.
5. $200 minimum, plus $55 hourly as needed.

ER 92-005 & 007 3-25-93 ITEMS 5 & 6

ATTACHMENT F

Excerpt from R St. Corridor Feasibility Study: Market Overview[16]

Table 3: Selected Existing Downtown Rental Projects

Project/Location	Total Units	Unit Mix: No. Units	Square Feet	Rents	Vacancy Rate	Comments
Governor's Square West 1451 3rd St.	200	Apartments			5%	Amenities include fireplaces, patios and/or balconies, underground security parking, pool, gym, sauna, spa, and available maid service.
		0BR-1ba:18	531	$570		
		1BR-1,1.5ba:60	809-894	$625 - $670		
		2BR-1.5,2ba:66	923-1,099	$750		
		3BR-2ba:18	1,304	$900		
		Townhouses				
		2BR-2ba:35	1,347	$950		
		3BR-2.5ba:5	1,558	$1,200		
Governor's Square East 520 P St.	102	Apartments			5%	Amenities include laundry rooms, exercise room, pool, spa, sauna, covered parking, cable TV, patios and/or balconies, and fireplaces.
		0BR-1ba:30	515	$570		
		1BR-1ba:24	540	$570		
		1BR-1ba:6	790	$625		
		2BR-1ba:15	1,055	$750		
		2BR-1ba:15	1,110	$750		
		Townhouses				
		2BR-2.5ba:6	1,245	$950		
		2BR-2.5ba:6	1,245	$950		
Capitol Towers Gardens 1500 7th St.	408	Lowrise			3%	Project components include 205 unit low-rise garden apartments and 203 units highrise component.
		0BR:40	300	$400		
		1BR:117	388	$440		
		2BR:45	559	$540		
		3BR:3	700	$675		
		Highrise				
		0BR:91	500	$475		
		1BR:78	700	$620		
		2BR:13	900	$790		
		3BR:13	1,000	$900		
		Penthouse	NA	NA		
Brannan Court N & 15th Sts.	40	1BR-1ba:12	780	$480 - $515	0%	CADA project; includes 7 low income units. Amenities include washer/dryers, dishwashers, elevator, and covered parking. Units filled immediately upon completion in July 1987. Management reports most tenants are working professionals.
		2BR-2ba:28	1,340	$625 - $700		
Greentree Townhomes 14th and O Street	17	2BR-1ba: 8	955	$700 - $750	0%	Built in 1984 as a townhomes condominium project which did not sell because of legal issues. Taken over by CADA in 1986 and rented as luxury townhomes. Amenities include secure entrance, electric kitchen, individual washer /dryers. One parking space is available per unit. Well designed and built. Management reports most tenants are working professionals.
		2BR-1ba: 7	952	$700 - $750		
		2BR-1ba: 1	902 - 1127	$750 - $760		

ER 92-005 & 007 2-25-93 ITEMS 5&7

Table 3: Selected Existing Downtown Rental Projects

Project/Location	Total Units	Unit Mix: No. Units	Square Feet	Rents	Vacancy Rate	Comments
Windemere 2530 South Street 5	40	1BR-1ba: 38 2BR-1ba: 4 1BR+den-1ba: 4	430 620 620	$405 - $425 $465 $425 - $455	10%	Building approximately 40 years old. Two buildings with open parking. One side of the project has access to a swimming pool, one side does not. Common laundry rooms and a secured gate. Seven garages are currently under construction. This project was included because it is near the 25th prototype site in order to represent current conditions in the neighborhood.
Capitol View 1091 G Street	40	1BR-1ba: 16 2BR-2ba: 12 2BR-2ba+loft: 12	676 938 1,076	$550 - $600 $645 - $695 $695 - $745	0%	Complex opened in January 1992. There are three wood frame buildings with two stories each. Units were built to condo specs. Unit amenities include microwave, dishwasher, fireplace, patio/balcony, tile kitchens, walk-in closets, and full size washer and dryers. Carport parking, including twenty four spaces protected by a security gate. Tenants include state workers, Legal Professionals, Lobbyists and some students in a roommate situation.

Source: Bay Area Economics

ER92-005 & 007

3-25-92

ATTACHMENT G-1

16TH STREET STATION DEVELOPMENT ALTERNATIVES
ER92-005

Characteristics	(1) Proposed Project 100% Office/ No Housing	(2) Existing C-4 Zoning 25% Office/ No Housing	(3) Housing Off-Site 4:1 Office/ Housing Ratio	(4) Staff Alternative Housing Off-Site 3:1 Ratio	(5) Preferred Alternative Housing On-Site 1:1 Ratio
Office Sq.Ft. (includes retail)	227,500	9,600	153,000	124,300	76,800
Residential Sq.Ft.	0	0	38,000	41,000	76,800
Housing Units (@ 1000 sf/unit)	0	0	38	41	76
Housing Density	0	---	40 du/ac	60 du/ac	86 du/ac
Office/Housing Ratio	---	---	4:1	31	1:1
Total Project Sq.Ft.	227,500	38,400	191,000	165,300	153,600
Floor Area Ratio[6]	5.9	1.0	4.0	3.2	4.0
Maximum Building Height	151′	75′	90′	75′	75′

1 The proposed project alternative consists of a 10-story office building with ground-floor retail on a single 38,400 square foot parcel.

2 The existing zoning alternative consists of a single-story warehouse covering the entire 38,400 square foot site, and having the allowable 25% office space.

3 This alternative consists of a 6-story building containing ground floor retail and parking, two levels of parking (one level subterranean and one on second floor), and four floors of office; the housing would be provided off-site on another lot within the R Street Corridor. This alternative has precedence in that it is similar to what was approved by the Planning Commission in October 1991 for the Watkins office project at 11th & Q Streets. That project consisted of a 70-foot tall 150,000 sq.ft. office building on a half-block, and the dedication of approximately 25,000 sq. ft. of land off-site to accommodate approximately 30 housing units.

4 This alternative consists of a housing component that would be developed off-site as a 71-unit residential project in conjunction with the Crystal Ice project. The appliciant would be responsible for 30 of the units. Another 11 units would be provided off-site on another parcel. This alternative was evaluated by the economic consultant for R Street and found to be financially feasible at a 17.3% internal rate of return. It is also similar to the office/housing ratio approved by the City Council for Pacific Plaza.

5 The Preferred Alternative designates the site "General Commercial Mixed Use", specifying a 1:1 ratio of office to residential square footage.

6 The floor area ratio figures are for the 38,400 square foot subject site only, and do not include portions of buildings devoted to parking. For alternative 5, the floor area ratio includes the on-site housing component.

b:rstreet.\16thstat.tbl

ER92-005 & 007

2-25-92

ITEMS 5 & 6

ATTACHMENT G-2

CRYSTAL ICE DEVELOPMENT ALTERNATIVES
ER92-007

Characteristics	(1) Proposed Project 100% Office/ No Housing	(2) Existing C-4 Zoning 25% Office/ No Housing	(3) Housing Only On East Site 4:1 Office/ Housing Ratio	(4) Staff Alternative Housing On East Site	(5) Preferred Alternative Housing On Both Sites
Office Sq.Ft. (includes retail)	550,218	25,600	220,000	165,700	118,000
Residential Sq.Ft.	0	0	55,000	55,200	170,000
Housing Units (@ 1000 sf/unit)	0	0	55	55	170
Housing Density:					
West Site	---	---	---	---	85 du/ac
East Site	---	---	47 du/ac	60 du/ac	60 du/ac
Office/Housing Ratio	---	---	4:1	3:1	0.7:1
Total Project Sq.Ft.	550,218	102,400	275,000	220,900	288,000
Floor Area Ratio[6]	5.4	1.0	4.0	3.2	4.0
Maximum Building Height	175'	75'	90'	75'	75'

1 The proposed project alternative consists of two 10-story office buildings with ground-floor retail on two 51,200 square foot parcels.

2 The existing zoning alternative consists of a single-story warehouse covering both sites, and having the allowable 25% office space.

3 This alternative consists of a slightly taller, 6-story building containing ground floor retail and parking, a second floor level of parking, and four floors of office on the west site; the housing would be provided on the east site, along with approximately 14,000 square feet of office. This alternative has precedence in that it is similar to what was approved by the Planning Commission in October 1991 for the Watkins office project at 11th & Q Streets. That project consisted of a 70-foot tall 150,000 sq.ft. office building on a half-block, and the dedication of approximately 25,000 sq. ft. of land off-site to accommodate approximately 30 housing units.

4 This alternative consists of a housing component that would be developed as a 71-unit residential project (@ 60 du/ac) on the east site in conjunction with the 16th Street Station project. The applicant would be responsible for 41 of the units. Another 14 units would be provided off-site. This alternative was evaluated by the economic consultant for R Street and found to be financially feasible at a 17.3% internal rate of return. It is also similar to the 3:1 office/housing ratio approved by the City Council for Pacific Plaza.

5 The Preferred Alternative designates the site "General Commercial Mixed Use", specifying a 1:1 ratio of office to residential square footage.

6 The floor area ratio figures are for the west site only, and do not include parking areas. For alternative 5, the floor area ratio includes the on-site housing component.

SACRAMENTO HOUSING & REDEVELOPMENT AGENCY

SUMMARY OF BAY AREA ECONOMICS' MARKET AND FINANCIAL FEASIBILITY STUDIES OF HOUSING IN THE R STREET CORRIDOR

Background

In January 1991, the City Council adopted a preferred land use alternative for the R Street Corridor that proposed a variety of mixed uses. Office, retail, and residential uses were to be fostered at a scale appropriate to the surrounding neighborhoods and at increased densities around light rail stations. The City Council also directed city planning and redevelopment agency staff to evaluate the economic feasibility of different housing prototypes within the R Street Corridor and to investigate their marketability.

The Redevelopment Agency contracted with Bay Area Economics (BAE) to perform these analyses, which were completed in the end of March, 1993. The major findings of their study are:

1. A mixed-use project with both office/retail and residential components is financially feasible without any external subsidy, but requires an approximate three-to-one office to residential square footage ratio to enable the office portion to internally subsidize the residential. Therefore the one-to-one linkage requirement of the Preferred Alternative should be modified to improve the viability of mixed use.

2. A second mixed-use prototype (for projects within redevelopment areas) is feasible with a land writedown and a developer loan to the project which is paid back through the tax increments from the residential and office components. In this model, 450,000 square feet of office space would be required in addition to the tax increment generated from the residential complex to repay the developer's loan. This gives an office/residential square footage ratio of approximately 1.5 to one.

3. An identifiable market exists for living downtown; it consists of middle-income people aged 35 to 54 who value proximity to work. The responses to the market survey showed that this group expressed high levels of satisfaction with their housing, both rental and condominium. (This potential market was similarly identified in the Central City Housing Strategy's employee survey of downtown workers.)

4. Workshops with local lenders are needed to encourage financing of mixed-use developments. While lenders are not enthusiastic about any real estate investment, they should be kept abreast and informed of opportunities through discussions on market findings, linkage programs, land-use designations and information on public financing.

Residential Market Overview of Downtown Sacramento

The BAE residential survey was mailed to residents in 13 complexes in Downtown Sacramento: Auslender Apartments, Brannan Court, Bridgeway Towers, Capitol Terrace, Capitol Towers, Capitol View Apartments, Governor's Square East and West, Greentree Apartments, Park Mansion, Saratoga Townhomes, Somerset Parkside, and Stanford Park. These developments, which include both ownership and rental housing, represent a broad spectrum of larger complexes of good quality. Overall, the apartments had low vacancy rates, from zero percent at Capitol View, Brannan Court, and Greentree Townhomes to 5% in Governor's Square West and East. The response rate to the 493 surveys was 44 percent (218 responses).

BAE focused its market overview on downtown residents to gain a better understanding of what drew them here and what they liked and disliked about downtown living. The premise underlying this approach was that if we understand why existing residents choose to live downtown, we can assess R Street housing developments accordingly.

BAE's findings may be summarized as follows:

The majority of respondents are single-family households, over half being 35 - 65 years of age. They are relatively affluent, with more than 60% earning incomes of $40,000 or more. They are employed in professional/technical or administrative jobs, and an extremely high proportion walk to work at least some of the time. Nearly 40% of the condominium residents who responded to the survey are first-time homeowners.

The respondents are satisfied with their current housing. BAE concluded that proximity to work or to other downtown activities are clearly the predominant factors creating housing satisfaction. The physical characteristics of their units and complex ranked second. What households disliked about their current residences varied. By broad category, noise and pollution ranked the highest.

Survey respondents listed affordability and proximity to work as the top two factors influencing their decision to locate downtown. Interior appearance and quality of their housing and downtown amenities ranked as significant secondary factors. Other areas where these residents looked for housing were Land Park, Natomas, East Sacramento, and Carmichael.

The BAE overview complemented the data gained from the Central City Housing Strategy's employee survey of people who worked downtown but for the most part did not live here. Respondents to the employee survey were similar in that they had higher incomes and more education than the population of the city at large. Those who lived in the city (and by inference, those who might choose to move downtown) had dramatically fewer children and were more likely to be single persons living alone. The employee survey found that downtown housing could attract a significant portion of downtown workers if well designed, affordable, moderate density housing were provided in neighborhoods with an identity and sense of place.

Bay Area Economics concluded that there was market support for new housing on R Street to be found in downtown workers with relatively healthy incomes if appropriate products were offered at reasonable prices. Moreover, the low vacancy rates in the complexes profiled and the absorption of the new Capitol View apartments suggest a relatively strong market among that group. The ability to walk to work appears to be a major asset; proximity to workplaces via light rail is an additional advantage.

Another target market described in the BAE study is the middle- to upper-income "empty nesters" who have chosen to sell their single family homes and move into an urban environment. Their attraction to multifamily housing often depends on greater security, neighborhood shopping opportunities, and more substantial project amenities, including tennis and swimming, and luxury unit features. While the waterfronts may offer the type of setting needed for this group, BAE concluded that their moving into the R Street Corridor is unlikely.

Questions of Density and Scale on R Street

The market survey showed that housing quality and price were instrumental in attracting residents to downtown living. But the survey did not identify the most marketable product type (lower density mid-rise housing vs. high rise residential towers). The occupants of Bridgeton Towers and Capitol Towers had similar levels of satisfaction with their housing as did the residents in garden-style units. Based on its experience in other communities, BAE suggested that most target markets consider the sense of privacy and open space, which is more easily provided in lower density developments, to be a desirable feature so long as affordability is not compromised.

Considering both the BAE market overview and the Central City Housing Strategy, staff suggested that the prototypes for the R Street financial feasibility study use housing densities of 60 units per acre for apartments and 30 units per acre for the condominium development. The 60-unit/acre density exceeds those found in adjacent R Street neighborhoods, but was adopted in response to the cost and availability of land and to conform with the City's policies of increasing density around light rail stations.

SACRAMENTO HOUSING & REDEVELOPMENT AGENCY

Financial Analysis of R Street Residential Development

The economic feasibility analysis conducted by Bay Area Economics considered three prototypes:

1. The Pacific Plaza Prototype

The Pacific Plaza prototype was developed to determine the level of subsidy needed to make a 300-unit residential project feasible in that portion of R Street which is within the Merged Downtown Redevelopment Area. The subsidy takes the form of a land writedown and a developer loan to the project that would be paid back by redevelopment tax increment funds from both office and residential components.

Key to making this prototype work is determining whether the increment created by both office and residential components would actually support the developer loan. BAE estimated that an office building of 450,000 square feet, combined with the 300-unit apartment complex, would create sufficient tax increment to support the debt service on a developer loan of $7.95 million (the financing gap on the residential project). As structured, this prototype gives an office to housing square foot ratio of 1.5 to one.

The development cost of the apartment complex in this prototype is estimated at $27.4 million. With rents at $700 for 2-bedroom apartments, the project is self-supporting, since the developer loan is being repaid through tax increments.

BAE estimates that the residential project alone offers an internal rate of return of 12 percent. This is in the lower range of the level of return generally found acceptable to investors.

(2) Crystal Ice Prototype

The Crystal Ice prototype was developed to test the financial feasibility of a mixed-use project on the R Street Corridor which does not involve any external or direct subsidy. The model includes 285,000 gross square feet of office space; 5,000 square feet of retail space; 183,050 square feet of office parking (420 spaces); 98,824 gross square feet for 96 rental apartments; and 103 residential parking spaces. Seventy-one of the apartments are located on site, accommodating a density of 60 dwelling units per acre. The office to housing square foot ratio is 3:1.

The office buildings are 75' in height, allowing for four floors of office space above two levels of parking (one below grade). Parking reductions are taken, as permitted by ordinance, because the site is across the street from a light rail station. Income from parking is not counted in the project's gross income.

The total project cost is estimated at $42 million. Annual net operating income is estimated at $4.34 million (at stabilized occupancy), sufficient to cover permanent loans of $33 million. Revenue sources are residential rents ($700/unit/month), retail rents at $1.00 per net square foot per month triple net, and office income of $1.60 per net square foot per month full service.

BAE projects that the mixed use prototype would generate an internal rate of return of 17.3 percent, a level commonly considered acceptable in the current real estate investment climate.

This prototype departs from some of the standards in the R Street Preferred Land Use Alternative. The office/residential mix is 3:1, not 1:1. The residential component is not within the boundaries of the General Commercial Mixed-Use Zone, which are used exclusively for office and retail space, but are on adjacent land. In addition, the model includes parcels currently owned by two separate developers, creating a mixed-use project with a residential component that serves both.

BAE concludes that the performance of the mixed-use prototype shows that there are financially feasible alternatives which could be constructed in order to generate new housing within the Corridor.

(3) Condominium Prototype

The 25th and R condominium prototype was developed to test the feasibility of for-sale housing. It consists of 30 townhomes averaging 1,067 square feet, with individual garages. Its density is 26 units an acre, less than half that of the rental housing prototypes.

The sales price for the units is set at $103,000, clearly competitive with suburban single-family home sales targeted at first-time homebuyers. Absorption rates are set very low at one sale per month. With total development costs projected at $3.5 million, the combination of low sales price estimates and slow absorption rates creates a significant financing gap of $354,720 and a negative internal rate of return. For a developer to achieve a [illegible] internal rate of return, sales prices would have to reach $140,000, which is $24,800 over direct costs.

BAE concludes that a condominium project structured in this fashion is not a feasible alternative.

<u>Lender Perspectives</u>

In the current real estate market, the ability to obtain financing for new development is seriously constrained. Four financial institutions active in the Sacramento area were interviewed to explore lender interest (or resistance) to financing mixed use and/or residential development in the R

Street Corridor. These institutions were Sacramento Savings Bank, Wells Fargo Bank, U. S. Bank, and Bank of America Community Development Bank (formerly B of A State Bank).

The lenders differ in their assessment of the strength of the downtown residential and office markets. Their overall inactivity obscured any differentiation between investing in R Street and other areas of Sacramento. Some of the institutions perceived lending on mixed-use projects as risky because of their lack of experience and their uncertainty of such lending's acceptance by the secondary market.

BAE recommended that workshops with local lenders be held to inform them of the R Street program, market study findings, and examples of successful financing of mixed-use projects carried out in other cities.

REMY and THOMAS
ATTORNEYS AT LAW

MICHAEL H. REMY
TINA A. THOMAS
JAMES G. MOOSE
J. WILLIAM YEATES
WHITMAN F. MANLEY
MATTHEW R. CAMPBELL
JANE M. MANOLAKAS
JOHN H. MATTOX

629 J STREET, FOURTH FLOOR
SACRAMENTO, CALIFORNIA 95814

(916) 443-2745
FAX (916) 443-9017

GEORGANNA FOONDOS
LAND USE ANALYST

July 7, 1993

HAND DELIVERED

Dear Honorable Mayor Serna and City Councilmembers:

At last Tuesday evening's Council meeting I made a short presentation regarding the early review process for the Crystal Ice site. The essence of my presentation went to the inequity of requiring an internal subsidy of ten dollars per square foot for sites along the R Street Corridor not within the Redevelopment area in order to meet a 3:1 housing ratio. The inequity occurs because heavy subsidies are available to those sites within the Redevelopment area in order to meet the same housing ratio. A second inequity exists since the public policy would be to require a $.95 per square foot subsidy for low and moderate income housing while a ten dollar per square foot subsidy is mandated for middle and upper income homes.

Because of the brevity of my presentation and the complexity of the issues, I was unable to address another issue of critical importance to your decisionmaking process. This is particularly true in light of Mr. Molloy's presentation that a project should not be looked at as two separate proformas (one for housing and one for office) but should be examined in one single proforma. While this still amounts to an "internal subsidy", as defined in the Bay Area Economics' Financial Feasibility and Housing Market Study (hereinafter,"BAE"), more importantly, it becomes questionable whether or not the project is financeable.

As the BAE study clearly points out, mixed use projects are probably not financeable in downtown Sacramento. For example, the BAE study, after discussions with various local lenders, makes the following statements:

> "The interviewee stated that they had little knowledge of or experience with the development of housing in the R Street Corridor or Downtown in general. <u>Generally the respondent stated that he did not favor Downtown housing, because he believed Downtown Sacramento was a weak residential market.</u>" (BAE p. 67, emphasis added)

> "This lender reported as a rule, his institution does not like to finance mixed-use projects because of the perceived complications and risks." (BAE p.68)
>
> "The respondent stated that they currently would only lend on a townhouse or condominium project if the project and the developer were very strong. They are also currently not very interested in making construction loans for apartment projects, and will only do so if the permanent loan is in place, so there is no lease-up risk associated with the construction loan." (BAE p. 69)
>
> "This lender is not currently active in the condominium or townhouse market, due to a history of bad experiences with condominiums in its market." (BAE p. 70)

We believe that the inability to finance the type of projects that the Council is currently considering for the R Street Corridor clearly affects their feasibility. While a heavily subsidized project may be financeable, it is very doubtful that a project with a huge internal subsidy would.

I hope that this information is useful.

Very truly yours,

Tina Thomas

Tina A. Thomas

TAT:kak

cc: John Molloy
Diane Guzman
Gary Stonehouse
Jeff Archuleta
Bina Lefkovitz
John Dangberg
Beverly Fretz-Brown

3070272.001