



**CITY OF SALINAS  
COUNCIL STAFF REPORT**

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**DATE:** JULY 11, 2017  
**DEPARTMENT:** COMMUNITY DEVELOPMENT DEPARTMENT  
**FROM:** MEGAN HUNTER, DIRECTOR  
**BY:** LISA BRINTON, SENIOR PLANNER  
**TITLE:** DOWNTOWN HOUSING TARGET MARKET ANALYSIS AND PARKING MEMORANDUM

RECOMMENDED MOTION:

A motion to receive and accept the Downtown Housing Target Market Analysis and Parking Memorandum.

RECOMMENDATION:

Staff recommends Council receive and accept the Downtown Housing Target Market Analysis and Parking Memorandum and direct staff on how to proceed with the recommended action plan outlined in the HTMA Implementation Strategy.

BACKGROUND:

On June 14, 2016, the City Council approved Resolution No. 20980 authorizing the City Manager to execute a professional services agreement with Economic & Planning Systems, Inc. (EPS) to prepare Housing Target Market Analyses (HTMA) for the Downtown, Chinatown and Alisal neighborhoods.

One of the key implementation recommendations of the Downtown Vibrancy Plan (2015) is to stimulate development activity by creating catalyst sites through the re-zoning of public surface parking lots to allow for residential or mixed-use development, and to focus on aligning the land use approval process to facilitate private investments in downtown development. This includes amending City land use designations and regulations to allow for and incentivize the recommended type(s) of housing development.

A better understanding of the housing target market, product demand, and absorption rates will allow the City and its partners and stakeholders to prioritize housing development efforts in these target areas. The HTMA will serve as an important tool to ensure that local planning and practice is in alignment with emerging markets. The HTMA outcomes will assist the city, private developers, and the community to focus and diversify their approach to community development, target funding to increase impact, and focus efforts where the data supports housing development.

The City did engage SCCIA throughout the process to review and provide feedback on the HTMA. However, it should be noted that SCCIA only received the final draft HTMA on June 29<sup>th</sup> and may have additional comments on implementation. While staff is seeking direction from City Council on July 11<sup>th</sup> on implementation strategies, it is also our intention to continue our work with SCCIA as a key stakeholder in the implementation of the Downtown Vibrancy Plan.

## DISCUSSION:

EPS's scope of work included the review of market data, stakeholder outreach with realtors, housing developers and downtown property owners (Salinas City Center Improvement Association), and identification of priority opportunity sites and pro-forma analysis of recommended housing prototypes. EPS evaluated financing gaps and recommended incentives or policy options necessary to ensure development feasibility. The HTMA provides actionable, strategic recommendations to advance viable development prototypes for specific development sites. Its focus is on the need to ensure that zoning, parking, densities, and other regulatory policies do not constrain development feasibility. The following is a summary of the Downtown HTMA, provided as Attachment 1.

### **Key Downtown HTMA Findings**

*Substantial market demand appears to exist for near-term ownership and rental residential projects in the Downtown.* Recent data and analysis suggests Salinas can capture annual market demand of at least 100 units annually in the Downtown over the next 5 years. Best practices in the industry suggest that mixed income, diverse communities add lasting strength to developing infill districts.

*Trends in consumer preferences suggest that market rate infill housing opportunities are most likely to appeal to certain consumer segments.* Market rate housing opportunities in Downtown Salinas are expected to appeal primarily to families and households without children that value proximity to Downtown entertainment and dining venues as well as a more urban environment. Targeted consumer segments are therefore primarily young professionals who may be interested in both entry-level ownership and rental opportunities and older empty nesters primarily interested in more upscale ownership products.

*Many adaptive reuse projects are gaining traction in Downtown Salinas.* Recent adaptive reuse projects repurposing underutilized upper floor space as residential units have been well received by the market. Future prospects for well-conceived adaptive reuse are promising. EPS evaluated adaptive reuse economics using estimated revenue potential for an example adaptive reuse project to derive a project budget range of roughly \$320 per square foot. Comparing these costs with the estimated all-in construction costs for new construction, it appears that adaptive reuse projects are generally viable absent extraordinary and unexpected development costs.

*The following sources of market risk present significant barriers to new Downtown housing development.*

- Crime and Public Safety

- Homelessness
- Lack of Open Space
- Lower School Performance
- Regional Traffic Bottlenecks
- Untested Market

### **Priority Sites and Housing Prototypes**

The HTMA analyzes three housing prototypes: owner occupied attached townhouse/row houses, owner occupied condo/stacked flats, and renter occupied apartments. These real estate prototypes would be most appropriate to meet the demand generated by the identified target market segments: young professionals and empty nesters.

Initial pro forma and site analysis indicates strong potential for a near-term ownership-oriented Townhouse/Rowhouse concept on Lot 3. Two key factors come into play when considering a catalytic site's compatibility for redevelopment, including existing encumbrances for designated uses, or potential to replace the loss of Downtown parking. To that extent, there are a number of other candidates for a second project, such as Lot 5 or Lot 12, which could offer market segmentation in the form of market-rate Townhouse/Rowhouse or apartments as the market matures over the next 5 years.

It is important to note that these recommendations are not intended to limit redevelopment opportunities on other sites not identified as a priority opportunity site. If a private sector investor expresses interest in other sites or development opportunities in the HTMA, the City should evaluate those opportunities consistent with the criteria and recommendations established in the HTMA.

Reuse of existing underutilized Downtown real estate assets offers an opportunity to augment the market rate rental multifamily housing stock. Well located reuse projects can provide additional residential capacity in the Downtown core, close to existing amenities and the existing urban fabric. Like other Downtown market rate rental products, these units are expected primarily to appeal to young professionals and similar cohorts, although the exact targeted demographic will depend on the precise project location and quality of finish.

### **Barriers to Development**

With these target consumer segments, housing prototypes and candidate catalyst sites in mind, EPS and EMC conducted a detailed analysis of associated development regulations to identify zoning and regulatory requirements that present challenges to development (via both new development and adaptive reuse) of the targeted prototypes Downtown. This analysis assumes that identified catalyst sites will be rezoned as MX – Mixed Use, which allows a variety of residential uses, including attached single-family (townhomes) and multifamily dwelling units. Standalone residential (i.e., without a mixed use component) is allowed under this zoning designations. The following regulatory requirements were identified as potential barriers to new Downtown housing development.

- Zoning and Density
- Usable Open Space
- Parking
- Development Impact Fees

Adaptive reuse project economics are subject to the same general dynamics as are new development projects, with similar development cost and revenue variables affecting the viability of project development. The ability to reuse structural elements of the buildings (foundation, roof, façade) may reduce overall development costs, but adaptive reuse projects do present substantial risk and uncertainty associated with the need to preserve and restore certain features, adapt proposed new development to the existing building systems and envelope, and remediate any issues encountered that add substantially to costs.

### **Downtown HTMA Recommendations**

Section 5 of the attached HTMA outlines several key strategies on how to improve the development context, implement infill housing policy remedies, provide housing incentives, foster public/private partnership, and streamline the entitlement process. These strategies are prioritized as immediate and ongoing, Short Term (Year 0), Medium Term (Year 1-3), and Long Term (Year 3+). Given the shortened timeframe for all of these strategies, it is clear that the City’s intention is to aggressively carry out these actions to stimulate production of market rate housing.

Below is a table that highlights both immediate and Short Term strategies. For a more detailed list, please refer to the attached HTMA.

**Table 1.**

<b>Implementation Item</b>	<b>Description</b>
<i><b>Downtown Development Context</b></i>	
Public Safety	Continue to coordinate with SCCIA to provide Downtown security, develop coordinated community/neighborhood watch programs as housing development proceeds.
Branding	Engage consultant to develop positive messaging and communications strategy for Downtown.
<i><b>Infill Housing Policy</b></i>	
Mixed Use Density Requirements	Clarify density allowance for mixed-use buildings by removing reference to unit size as basis for FAR allowance.
Parking	Finalize strategy for replacement parking (identify locations and funding sources) as well as parking to support new development. Reduce parking requirements to 1.0 space per unit, implement parking in-lieu payment and other recommendations established in Parking Strategy. Maintain flexibility to waive parking requirement and in-lieu payment as may be needed over the short term.

<b>Implementation Item</b>	<b>Description</b>
Adaptive Reuse Ordinance	Develop an adaptive reuse ordinance for Downtown Core to permit maximum flexibility in terms of reducing or eliminating density, open space and other requirements.
Application of California Historic Building Code	Initiate training of permitting and other City staff regarding application of California Historic Building Code to facilitate adaptive reuse projects.
<b><i>Housing Incentives</i></b>	
Development Fee Restructuring	Review and consider development impact fee program restructuring and other incentives to reduce costs.
Public Financing Analysis	Evaluate various public financing tools to determine feasibility and develop corresponding action plan.
<b><i>Public/Private Development Strategy</i></b>	
Organizational Approach to P3 Program	Establish the approach for developer outreach and selection; determine priority sites and appropriate marketing for an RFQ/RFP to develop market rate housing on parking lot sites.
<b><i>Project Approval Process</i></b>	
Opportunity Site Development Regulations Guide	Identify specific policies, regulations, and incentive programs for opportunity site development.
Staff Liaison	Establish staff liaison for Central City development, dedicated to facilitating development of both new and adaptive reuse projects.

**Downtown Parking Memorandum**

The DVP recommendation to re-zone surface parking lots to allow for desired uses such as residential or mixed-use development would result in an increase in parking demand and the loss of parking supply. Conversion of existing parking lots to residential use results in the loss of parking supply. For example, if Lots 3, 5 and 12 were converted to residential use, a maximum of 335 parking spaces would be lost from the downtown supply.

The City Council authorized the execution of a professional services agreement with Kimley-Horn to prepare a citywide Parking District Management Plan (PMP) to help determine the optimal parking in order to support increased residential development in the Downtown while retaining the existing commercial and retail activities (September 20, 2016 by Resolution No. 21058). The PMP will include discussion on the consolidation of citywide parking functions and a strategic plan to manage parking operations to be effective and sustainable.

For Downtown, the PMP will discuss and make recommendations for: 1) the proposed location and timing of a new parking garage 2) pricing of parking in order to encourage efficient use of available parking, and 3) financing of City parking projects. The first phase of Kimley-Horn’s

PMP scope of work is to analyze the Downtown HTMA development scenarios impacts on parking and to provide strategies for balancing downtown parking supply and demand.

## **Scope of Work**

The HTMA pro-forma analyses indicates that without incentives including reduced parking requirements, residential development does not pencil out for Downtown. The Parking Memorandum accompanying the HTMA narrowly focuses on parking management strategies to facilitate residential development in Downtown. The scope of work included a survey of current parking conditions, analyses of model forecasting to evaluate parking impacts of the HTMA residential development scenarios, and a discussion of strategies from code changes, reduced parking requirements, in lieu parking fees, and shared parking strategies necessary for development viability.

## **Findings**

In November 2016, Kimley-Horn, the City's parking consultant, conducted occupancy studies throughout the downtown area to establish existing demand conditions. The data, which is summarized in the Memorandum and graphically depicted in Appendix A, confirm that Lot 5, the Monterey Street Garage, the Permit Center Garage, and the train station parking lot have the capacity to absorb further parking demand. These four facilities have a combined availability of about 500 spaces. Most of this available parking is located within paid parking facilities. Other parking facilities shown in the table have very little available capacity to absorb any additional parking demand.

The Park Plus model run shows how parking is affected by changes in parking supply and parking demand based upon redevelopment of the three parking lots. The Park Plus model assigns parking use to the most attractive nearby parking until a facility reaches 90%, or what is considered the practical capacity. At that point, the model seeks to find then next best parking. This iterative process results in parking being spread or "pushed" outward from the areas of change. The parking model includes existing on-street parking facilities and the model does show how changes affect the overall parking demand including for on-street parking facilities.

The model shows that the overall Downtown area has enough parking to accommodate the planned uses. While there is still capacity to be found should all three lots be developed, the model indicates that all public parking lots and structures will be at 90% capacity, with the exception of the ITC/Train Station lot, which will have about 240 spaces available. This lot is located on the northern periphery of downtown, a farther distance from the downtown core and therefore, is the last to be filled.

## **Recommendations**

Downtown residential development is an important component of the Downtown Vibrancy Plan. The HTMA recommends that the City consider incentives to improve the market for downtown development. The Parking Memorandum therefore provides some tools and strategies that can be offered as options to developers to increase the feasibility of providing downtown housing. These tools are considered as best practices for managing parking supply and demand. Particular tools

and options deployed will vary depending on each development's need for incentives and the benefits that development contributes toward making downtown more vibrant. Tools include:

- In-lieu payments
- Reciprocal or shared parking
- Unbundled parking
- Enhanced Infrastructure Financing District to construct stacked parking
- Strategic transfer of City-owned property for residential development
- Better Management of Parking Facilities User Fees

The last tool might be most critical. As the City works to revitalize Downtown and intensifies uses, free-parking will not be sustainable and will begin to negatively impact overall parking. Cities that have instituted a managed parking system with associated fees have been able to invest in maintaining and building parking facilities and ensured that customers have a more reliable, available parking.

#### CEQA CONSIDERATION:

The City of Salinas has determined that the proposed action is not a project as defined by the California Environmental Quality Act (CEQA) (CEQA Guidelines Section 15378). In addition, CEQA Guidelines Section 15061 includes the general rule that CEQA applies only to activities which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. Because the proposed action and this matter have no potential to cause any effect on the environment, or because it falls within a category of activities excluded as projects pursuant to CEQA Guidelines section 15378, this matter is not a project. Because the matter does not cause a direct or foreseeable indirect physical change on or in the environment, this matter is not a project. Any subsequent discretionary projects resulting from this action will be assessed for CEQA applicability.

#### STRATEGIC PLAN INITIATIVE:

The EDE and DVP as strategy documents, as well as their implementation, align closely with the City Council's goals (2016-2019) of Economic Diversity and Prosperity, Safe, Livable Community, Well Planned City and Excellent Infrastructure, and Quality of Life. The HTMA specifically promotes the goal of Economic Diversity and Prosperity.

#### FISCAL AND SUSTAINABILITY IMPACT:

While receipt of this report has no direct financial impact on the General Fund, there would be future costs associated with the recommended actions. Currently the Council has appropriated \$100,000 (CIP Project 9246) to process Downtown Vibrancy Plan zoning changes.

#### ATTACHMENTS:

1. Downtown Housing Target Market Analysis, dated June 28, 2017
2. Downtown Parking Memorandum and Appendices, dated June 13, 2017