

Hillsdale Terraces LLC

March 31, 2015

Ms. Tricia Schimpp, AICP
Planning Division
City of San Mateo
330 W. 20th Avenue
San Mateo, CA 94403

Re: PA13-077 – Hillsdale Terraces – State Density Bonus and Concession Request

Dear Ms. Schimpp:

Through this letter Hillsdale Terraces LLC requests the density bonus and concessions described below in relation to the proposed project in central San Mateo, known as Hillsdale Terraces (2700-2790 El Camino Real).

Hillsdale Terraces LLC is proposing to develop 74 residential condominium units and 15,881 square feet of commercial space in a mixed-use, five-story building on almost one acre in central San Mateo. The project is conveniently located near regional and local public transit, shopping, and restaurants in the Hillsdale area, and is ideal for a wide range of demographics in the diverse City of San Mateo. The proposed project includes 22 one-bedroom, 44 two-bedroom, and 8 three-bedroom units with 171 parking spaces (107 for residential and 64 for commercial). Of the 74 units, eight (8) units will be designated affordable for very-low income residents.

I. This Project Qualifies for a Density Bonus of 35% Pursuant to Government Code § 65915(f)(2)

Because 16% of the original allowable 50 units are designated for very-low income residents, this project qualifies for a density bonus of 35% (18 additional units, for a total of 68 units). It should be noted that Hillsdale Terraces is actually proposing to construct two (2) additional very-low income units, beyond what is necessary to achieve the 35% density bonus, in order to provide additional low-income units in this transit-oriented area.

II. This Project Qualifies for Two Concessions Pursuant to Government Code § 65915(d)(2)(B)

Additionally, because at least 11% of the project's total number of units is allocated to very-low income households, this project also qualifies for two concessions pursuant to Government Code § 65915 (d)(2)(B).

As such Hillsdale Terraces hereby requests the following two concessions: 1) a 25% increase to the maximum Floor Area Ratio (FAR), from the current maximum of 2.0 to 2.5; and 2) an additional density increase of 8%, or six (6) additional units, for a total of 74 units.

When an applicant seeks a density bonus as prescribed by Government Code § 65915, the City will grant the number of incentives or concessions required by that section *unless* it determines that: (a) the concession or incentive is not required in order to provide for affordable housing costs; (b) the concession or incentive would have a specific adverse impact, upon public health and safety or the physical environment or on any real property that is listed in the California Register of Historical Resources.

A. The City Has Discretion to Grant the Increase In FAR

In general, an increased maximum Floor Area Ratio will be deemed not to have an adverse impact so long as the project remains consistent with the City's General Plan and any applicable design guidelines. (See San Mateo Municipal Code 27.16.060(d)(1)(B)(2)(C).) As set forth above, the project is consistent with the City's General Plan, Hillsdale Station Area and El Camino Real Master Plan, and applicable design guidelines.

B. The City Has Discretion to Grant Additional Bonus Units

Summary of Proposed Unit Count:

Zoning Allowance	50 units	(8 units or 16% to be very-low-income)
35% Density Bonus	<u>18 units</u>	
	68 units	
Concession	<u>6 units</u>	
	74 units	

As set forth above, there are limited circumstances in which the City may deny the developer's incentive request. Hillsdale Terraces LLC's request for an additional density increase of 8% is required in order to provide for affordable housing costs (including supporting infrastructure such as structured parking, open space, and project amenities) and would not have an adverse impact on public health and safety or the physical environmental or on any historical real property. The necessity of this concession in order to provide affordable housing is discussed in detail on Exhibit A, attached hereto.

The City of San Mateo has wide latitude and discretion to provide an additional density bonus, pursuant to Government Code § 65915(n), applicable case law, and San Mateo Municipal Code 27.16.060. The purpose of the Density Bonus Law is to encourage and provide incentives to developers to provide low-income housing. In addition to mandating density bonuses based on the percentage of low-income housing units, Government Code § 65915 also provides that

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“nothing in this section shall be construed to prohibit a city ... from granting a density bonus greater than what is described in this section for a development that meets the requirements of this section“ (Gov’t Code § 65915(n).)

Similar additional density bonuses were provided as concessions and/or incentives to developers in Berkeley and in Vacaville. (See *Wollmer v. City of Berkeley* (2009) 179 Cal.App.4th 933 and *Friends of Lagoon Valley v. City of Vacaville* (2007) 15 Cal.App.4th 807.) The City of Berkeley granted the developer an additional density bonus of 25 units, as a concession, which represented a 21% additional density bonus. (*Wollmer, supra*, 179 Cal.App.4th at 937-938.) The City of Vacaville awarded the developer a 40.5% total density bonus as a concession. (*Friends of Lagoon Valley, supra*, 15 Cal.App.4th at 812.)

In both cases, the First District Court of Appeal determined that the Cities’ decisions to award additional “bonus units” was well within the City’s discretion. The Court’s rationale was based upon 1) the underlying purpose of the Density Bonus Law, to encourage and provide incentives to developers to include low income and moderate income housing units in their developments; and 2) the clear and unambiguous language of Government Code section 65915(n), which provides that the section does not prohibit granting a density bonus greater than described if a development meets stated requirements in the section.

We respectfully submit this request for a density bonus and two concessions for the proposed Hillsdale Terrace project at 2700 El Camino Real. Thank you for your consideration.

Sincerely,


George Lam
Project Sponsor 3-30-2015

cc: City Attorney

EXHIBIT A

Hillsdale Terraces Density and Concession Bonus Analysis - March 31, 2015

Introduction

This analysis evaluates the feasibility of adding six additional market-rate units to a proposed mixed-use development in the centrally located Hillsdale area of San Mateo.

Scenario 1 (base scenario) analyzes a project with 68 units, 60 of which are market-rate and 8 of which are designated for "very low income" households. This scenario applies a 35% density bonus, as outlined in Government Code § 65915 (f)(2).

Scenario 2 analyzes a project with 74 units, 66 of which are market-rate and 8 of which are designated for "very low income" households. Six units are designated as concession units pursuant to Government Code § 65915 (d)(2)(B).

Internal Rate of Return (IRR) is a common metric used by various financial institutions, investors, and developers to gauge the rate at which an investment will break even. Projects with a higher IRR are more desirable, and projects with an IRR lower than the cost of capital or negative are not feasible.

Assumptions

Timeline is assumed to be 5 full years, with year 0 starting at the time of land purchase. Construction period is assumed to be 3 years, with costs evenly distributed. Sales are assumed to occur within one full year.

- ¹ Count of Below-Market-Rate (BMR) units is based upon percentage of unit mix in the overall project and is rounded up to the nearest whole number.
- ² Residential Construction Cost per unit is based on internal LFGeorge Properties' costs for 2014 and includes construction costs for the actual residential units. It is not adjusted for inflation.
- ³ BMR unit sales price is taken from "City of San Mateo Below Market Rate Housing Program Maximum Unit Rates: Max Rent Price and In Lieu Fee - 2014."
- ⁴ Selling price per square foot (SqFt) is based on Q4 2014 condo sales in 94403 (MLS/Trulia) and is assumed to increase with a higher mix of 1 bedroom units.
- ⁵ Project Cost per square foot is based on internal LFGeorge Properties' costs for 2014 and includes infrastructure and residential construction costs, permit fees, excavation costs, loan fees, and legal fees. It is not adjusted for inflation and is assumed to decrease with a greater number of total units.

Conclusion

Based on the high cost of construction at this project site and overall rising costs in the Bay Area, more market-rate units are needed to support the construction of below-market-rate units. In this study, Scenario 1 does not yield a profitable project and is not feasible. Scenario 2 yields a relatively better outcome.

Scenario 1						Scenario 2					
Total Unit Count		68				Total Unit Count		74			
Affordable Units		8	12%			Affordable Units		8	11%		
Market Rate Units		60	88%			Market Rate Units		66	89%		
Total Residential SqFt		80,726				Total Residential SqFt		80,726			
<i>Below-Market-Rate Unit Cost Breakdown</i>						<i>Below-Market-Rate Unit Cost Breakdown</i>					
	Count ¹	Project's Average SqFt/Unit	Residential Construction Cost/Unit ²	Sales Price/Unit ³	Profit (Loss) per Unit		Count ¹	Project's Average SqFt/Unit	Residential Construction Cost/Unit ²	Sales Price/Unit ³	Profit (Loss) per Unit
1 BR	2	850	\$380,000	\$190,000	(\$190,000)	1 BR	2	850	\$380,000	\$190,000	(\$190,000)
2 BR	5	1,100	\$490,000	\$220,000	(\$270,000)	2 BR	5	1,100	\$490,000	\$220,000	(\$270,000)
3 BR	1	1,600	\$600,000	\$250,000	(\$350,000)	3 BR	1	1,600	\$600,000	\$250,000	(\$350,000)
<i>BMR Total</i>	8	8,800	\$3,810,000	\$1,730,000	(\$2,080,000)	<i>BMR Total</i>	8	8,800	\$3,810,000	\$1,730,000	(\$2,080,000)
<i>Average per Unit</i>		1,100	\$476,250	\$216,250	(\$260,000)	<i>Average per Unit</i>		1,100	\$476,250	\$216,250	(\$260,000)
Selling Price per SqFt ⁴			\$590			Selling Price per SqFt ⁴			\$600		
Project Cost per SqFt ⁵			\$425			Project Cost per SqFt ⁵			\$410		
Add'l Cost/SqFt for BMR units			\$26			Add'l Cost/SqFt for BMR units			\$26		
Total Cost per SqFt			\$451			Total Cost per SqFt			\$436		
Income per SqFt			\$139			Income per SqFt			\$164		
5-year IRR			-0.6%			5-year IRR			2.4%		