

The Economics of Land Use



Final Draft Report

Salinas Downtown Housing Target Market Assessment

Prepared for:

City of Salinas

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1. INTRODUCTION AND EXECUTIVE SUMMARY

The City of Salinas (City) engaged Economic & Planning Systems, Inc. (EPS) and EMC Planning Group (EMC) to conduct a Housing Target Market Analysis evaluating market demand for new ownership and rental housing product in Downtown Salinas and developing implementation strategies to effect desired real estate investments in the Downtown. Downtown Salinas has benefitted from increasing levels of private investment activity and in recent years has demonstrated much improvement in terms of urban form as the City implements the recommendations of the recently completed Downtown Vibrancy Plan.

Downtown Salinas demonstrates, however, a dearth of housing stock that would make for a truly vibrant “18-hour” urban environment, bolstering demand for additional retail and restaurant offerings and improving the risk profile to attract further housing and commercial development. Market fundamentals would suggest the market for housing development in Downtown Salinas is robust, as vacancies are low and rents and home prices are rising. Nonetheless, despite numerous planning and market studies recommending additional residential development in the urban core, the City has not realized the type, character, and scale of development that it seeks in Downtown. The City is interested in understanding what options exist to catalyze and incentivize Downtown housing projects targeting the appropriate consumer segments and strategically located to maximize market position and project success.

Much economic, market demand, revitalization, and planning analysis related to Downtown and its environs has been completed over the last decade (see for example, the Vibrancy Plan, Downtown Revitalization Report, Draft Economic Development Element, etc.). This report, therefore, attempts to synthesize work already completed to bracket likely market demand and targeted consumer segments and identify implementation strategies to effect the type of development recommended by various revitalization studies and desired by the City.

The first portion of this study therefore seeks to quantify market demand for new residential development and characterize prevailing consumer preferences for various market segments. This effort will help to solidify City targets in terms of the scale and character of targeted residential development in Downtown Salinas. Leveraging work completed as part of the Downtown Vibrancy Plan, EPS and EMC then evaluated the Downtown opportunity sites to identify candidate locations for targeted investment, filtering opportunity sites based on consumer preferences, location, site configuration, and various other characteristics.

EMC and EPS then worked to evaluate existing policy and regulatory barriers that limit the private sector’s ability to deliver housing stock desired by targeted consumer segments, adding costs that impede development feasibility and potentially affecting consumer acceptance of housing products.

To understand how these policy barriers influence the economic viability of new residential real estate development, EPS conducted static pro forma analyses to identify any potential feasibility gaps for the targeted residential real estate prototypes, and offered recommended policy options and strategies to catalyze and incentivize private investment. The section below offers an overview of the findings of the analysis, with the chapters to follow offering additional data and analytical detail.

Summary of Findings

1. **Salinas occupies a strong market position at an intersection of job centers.** Sources of Salinas buyers and renters include workers in the Salinas Valley, the Bay Area, and the Monterey Peninsula. All three areas are experiencing sustained or increasing economic activity, with anticipated expansion and diversification of the City of Salinas (City)'s local economic base, expected through the implementation of the Draft Economic Development Element (EDE).
2. **In this regional market, Salinas often must battle issues of stigma related to its well-publicized public safety challenges,** necessitating substantial progress toward addressing these issues and improving the Salinas "brand." While local and regional investors familiar with Salinas may not be as deterred, these steps are necessary to attract outside capital.
3. **Regional growth patterns suggest Salinas and other communities must do a better job of balancing housing with corresponding labor market growth.** Capturing a deep and predictable demand pipeline for Downtown Salinas requires tapping into a diverse range of income brackets and household types, leveraging Salinas's inherent strength in the proximity to job markets on the coast and the U.S. Highway 101 corridor, while transitioning to a more sustainable jobs-housing match. Put simply, Salinas needs to attract more high-wage jobs to its downtown area as a fundamental component of attracting market-rate and upscale housing, as well as commercial uses such as urban groceries.
4. **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 delivered units annually in the downtown over the next 5 years, as discussed in **Chapter 2**. Best practices in the industry suggest that mixed income, diverse communities add lasting strength to developing infill districts.
5. **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.
6. **Despite market metrics that are quite impressive and the existence of pent up demand, there is a striking dearth of product recently built, in construction, or in the pipeline.** A review of current metrics indicates the City is experiencing a rent growth spike, while vacancies are extremely low. However, the market is not responding as one would expect, as few multifamily units have been built in the City during the last decade. The reasons for this are manifold and relate to specific attributes of the renter market attracted by larger single-family homes. With appropriate code enforcement and provision of replacement product, Salinas has strong fundamentals supporting multifamily growth.

7. **Demand for affordable housing products is essentially unlimited.** As home and rent prices have significantly increased in the City and throughout the Salinas Valley in the past few years, the City is experiencing a massive undersupply of affordable housing products and the entrance of any additional rent-restricted units would likely be rapidly absorbed.
8. **The Downtown-Chinatown interface is an important issue to resolve, but one that relies on strategic timing and interim improvement in Chinatown conditions.** Real estate strategies are insufficient to address chronic social problems. The City and its community partners need to develop a broader strategy to address the social ills (homelessness, drug use, prostitution, etc.) that plague the area. Revitalization efforts absent an effective and comprehensive public safety and social service response will result only in shifting the problem to other areas of the City, likely undermining related revitalization efforts.

There is a strong correlation between public safety and land use patterns, arguing for better connections among and between City subdistricts to provide for defensible space, access for public safety and other public services, and added security as a result of stronger adjoining neighborhoods. In the case of Salinas, there is a need to phase in such improvements very slowly and carefully, given the severity of adjoining conditions in Chinatown.

9. **A key to success in terms of attracting investors is early-stage demonstration of viable projects meeting investor thresholds based on an objective assessment of risk.** While certain risks are imposed from outside forces, such as business cycles and related market risk, there are steps the City can take (beyond social and public safety steps mentioned above) to effectively reduce the rates of return sought by capital providers, such as reduced entitlement risk, as well as strategic modifications of regulatory policies related to parking, open space and many other topics. The City also is effectively diversifying its economic base, and continued steps in this regard will continue to diversify the labor force, opening up additional housing segments and related prototypes, including a variety of new downtown housing concepts.
10. **As an initial step, the City and its development/investment community have an opportunity to partner to address and overcome feasibility gaps, if and when they occur, for priority projects.** A catalytic demonstration project may take several forms, including higher density single-family ownership product, in addition to rental product offered in various configurations. 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. As needed affordable products move forward during this time frame, it is recommended that such projects be dispersed throughout the Downtown district as opposed to being concentrated in any one part of Downtown.
11. **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

projects 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.

12. **Adaptive reuse developers do, however, face regulatory issues that affect the feasibility and timing of construction.** Certain City policies (e.g., density, usable open space requirements, accessibility) for Downtown development do not sufficiently address issues related to repurposing commercial buildings for residential uses. Based on conversations with City staff and developers, approximately 80 units are currently under review or consideration for development within adaptive reuse projects. If regulatory constraints are not addressed for these products, adaptive reuse housing developments may not be realized as a viable option to address the City's housing need.
13. **Expanding the range of uses and intensity needs to be done carefully over time, with an eye to retaining key uses and leveraging new catalyst uses to encourage sought-after development.** Downtown Salinas should be carefully grown in a phased manner. Based on initial observations, growth and investment generally should radiate outward from the Main Street spine to provide additional depth to the district, following best practices in terms of sightlines, defensible space, and sustainability, to sustain the unique blend of retailers in a more vibrant 18-hour-day fashion through the addition of residential development.

Initial development sites should be evaluated systematically using established selection criteria, which may include proximity to street energy/attractive uses, pedestrian access and connectivity, site configuration (does the use physically fit the site), crime and safety perceptions, parking feasibility, and utilities availability. Specific development sites appropriate for identified housing prototypes and ideal to attract identified consumer segments are identified in **Chapter 3**.

14. **Public and private stakeholders must understand the effects of risks, policies, gap funding, and other actions and issues through the lens of a project pro forma.** Pro forma analysis of key prototypes offers an understanding of project feasibility. Project feasibility is bolstered by climbing real estate values reflected in pricing and rent levels, but hindered by cost profiles on par with much more expensive locales (i.e., Bay Area). Perceptions of risk associated with developing in Downtown Salinas present a major hurdle, and developer return requirements to overcome the risk profile of a pioneering urban infill project can reduce viability substantially. Extraordinary costs associated with open space, parking, and other requirements further degrade a project's ability to meet required return thresholds. A preliminary pro forma analysis indicates moderate to strong prospects for both ownership and rental product downtown; subject to certain policy revisions and other potential financial incentives.
15. **City efforts to incentivize Downtown infill development should focus on improving the Downtown Development context, identifying key policy adjustments to relax requirements and reduce costs, and developing public-private partnership development strategies.** With this structure in place, the City will be well positioned to initiate a developer outreach and selection process to identify candidate private sector

partners, demonstrating the City's commitment to streamlining entitlement complexities, reducing developer costs where needed as demonstrated by supporting financial analysis, and providing other needed financial incentives or support to accomplish infill development objectives.

Report Organization

Following this introductory chapter, this report contains 4 chapters with supporting documentation and analysis appended:

- **Chapter 2** provides an assessment of the Downtown Housing market, identifying targeted consumer segments and sources of market risk impeding development activity.
- **Chapter 3** offers an overview of Downtown development opportunities and synthesizes anticipated consumer demand, desired housing prototypes, and available development sites to identify a prioritized set of "candidate catalyst" opportunity sites. This chapter also offers a synopsis of key policy constraints and barriers affecting the viability of these development opportunities.
- **Chapter 4** includes an analysis of development feasibility taking into consideration the various target housing prototypes and potential City policy revisions.
- **Chapter 5** leverages the analysis completed in prior chapters to offer a prioritized set of implementation steps to secure private development partners to effect the provision of desired Downtown housing stock.

2. DOWNTOWN HOUSING MARKET ASSESSMENT

Supporting a population of just more than 160,000 and 40,000 households, the City of Salinas has confronted a number of challenges in comparison to the more affluent communities located on the Peninsula, demonstrating lower median incomes, lower educational attainment, higher poverty rates, and a much higher crime rate than neighboring jurisdictions. The economy is dominated by the agriculture industry with nearly 20 percent of jobs related to that sector. With lower housing costs relative to the more affluent peninsula communities, the City also houses numerous blue collar service workers employed in the tourist-oriented communities on the Monterey Peninsula.

The City demonstrates an economic bifurcation typical of agriculture and tourism-based economies, with a substantial cohort of low-income households,¹ along with smaller concentrations of upper- and high-income earners. As shown in **Table 2-1**, approximately 60 to 65 percent of households in the City earn lower than the Monterey County median income for 3- or 4-person households. This bifurcation manifests in the real estate landscape, which consists of upper-income neighborhoods largely located on the periphery and the City proper primarily housing low- and middle- income households. In the City, the real estate landscape is mixed, transitioning quickly from attractive, well maintained blocks to areas demonstrating substantially more blight and disrepair. Such development patterns contribute to the City's rather stigmatized reputation and associated perceptions regarding public safety concerns.

As recommended by the recently adopted Draft EDE, the City is pursuing economic development strategies to "transform Salinas into a regional and global center for business innovation and development in agriculture technology related sectors such as energy, precision agriculture, technology research and development, waste processing and reuse, food analysis and testing, and 'smart farming'." Such economic diversification efforts will serve to broaden the employment base and offer more, higher wage earning job prospects.

In this economic and real estate context, the City's downtown is demonstrating substantial revitalization and investment, consistent with trends across the nation refocusing interest, investment and activity back into downtowns and the urban core. Anchored by the National Steinbeck Center and new Taylor Farms headquarters, Main Street offers a variety of new dining, drinking and entertainment options. Anecdotal information suggests that up to 10 new restaurants in the Downtown are planned and at least three large adaptive reuse projects are under consideration, demonstrating the renewed interest and vibrancy in the Downtown. Additionally, construction of the new Taylor Farms Headquarters in Downtown is an encouraging development, as it has delivered more than 300 well-paying jobs to the heart of Downtown

¹ As defined by the CA Department of Housing and Community Development, Lower Income (including Extremely Low Income and Very Low Income) is defined as households that earn between 0 and 80 percent of the local area median income (County of Monterey).

Table 2-1
Salinas Housing Target Market Analyses
Salinas Household Incomes Compared to County Median

Item	Salinas	
	No. of Households	Percent of Total
Income Range		
< \$10,000	1,733	4.3%
\$10,000 - \$14,999	2,101	5.2%
\$15,000 - \$19,999	2,262	5.6%
\$20,000 - \$24,999	2,759	6.8%
\$25,000 - \$29,999	2,450	6.1%
\$30,000 - \$34,999	2,237	5.5%
\$35,000 - \$39,999	2,539	6.3%
\$40,000 - \$44,999	2,066	5.1%
\$45,000 - \$49,999	2,191	5.4%
\$50,000 - \$59,999	3,493	8.6%
\$60,000 - \$74,999	4,498	11.1%
\$75,000 - \$99,999	4,924	12.2%
\$100,000 - \$124,999	2,877	7.1%
\$125,000 - \$149,999	1,771	4.4%
\$150,000 - \$199,999	1,802	4.5%
\$200,000 +	738	1.8%
Total	40,441	100.0%

Monterey Co. 3-person HH Median Income - \$61,850

Approx. No. of HH under Co. 24,386 60.3%
 3-person HH Median [1]

Monterey Co. 4-person HH Median Income - \$68,700

Approx. No. of HH under Co. 26,440 65.4%
 4-person HH Median [2]

"median_income"

Source: US Census Bureau, 2010-2014 ACS 5-Year Estimates;
 CA Dept. of HCD State Income Limits for 2016.

[1] Includes all households that make less than \$60,000 and approximately 12.3% of households that earn between \$60,000 to \$74,999, as shown below.
 $\$61,850 - \$60,000 = \$1,850$. $\$1,850 / \$14,999 = \text{approx. } 12.3\%$.

[2] Includes all households that earn less than \$60,000 and approximately 58.0% of households that earn between \$60,000 to \$74,999, as shown below.
 $\$68,700 - \$60,000 = \$8,700$. $\$8,700 / \$14,999 = \text{approx. } 58.0\%$

Salinas; and through the Western Growers Center for Innovation & Technology, a state-of-the-art ag-tech center, has incubated an entrepreneurial startup community of agriculture innovators. As of January 2017, the Taylor Building houses more than 25 ag-tech startup firms.³

Efforts to capitalize on Salinas' assets as the agricultural technology epicenter of the world resulted in attracting the Forbes AgTech Summit to Downtown Salinas. The second annual Summit, held in July 2016, attracted over 500 participants to showcase innovations in agricultural technology. The Forbes AgTech Summit website indicates the event will return to Salinas for a third year in June 2017, expanding to over 600 invites.

Despite these encouraging developments, however, the Downtown economy and real estate market is fairly shallow, with much of the activity concentrated within a core 2 or 3 blocks, surrounded by larger swaths of vacant lots, surface parking, and buildings demonstrating higher levels of disrepair and blight.

Like many jurisdictions throughout California, Salinas struggles with a large and growing homeless population and associated perceptions regarding negative public safety implications. Concerns regarding the impact that this problem might have on prospects for continuing downtown revitalization are well founded and efforts to manage this issue through public and private sector security measures should continue. The Salinas City Center Improvement Association (SCCIA), a property-based improvement district, is addressing safety concerns by allocating funding for added security in Downtown. The added security is a part of the SCCIA's Sidewalk Operations, Beautification, and Order division which aims to provide a safe, clean, and beautiful atmosphere throughout Downtown.

Despite these measures, the absence of substantial housing stock in the Downtown contributes to this environment and its associated challenges, as activity is limited to daytime population serving restaurants and other retail options are limited by the absence of a substantive resident base. Concerns regarding the transient population are also exacerbated by the absence of an active and present resident population, as the effect of "eyes-on-the-street" can often ameliorate worries associated with perceived public safety issues.

In 2009, the City engaged Urban Design Associates to prepare the Downtown Salinas Revitalization Report. That report recommended that 750 new market rate housing units be developed in downtown Salinas. Despite that recommendation, between 1996 and 2013, the only residential development the Downtown has realized has been heavily subsidized housing projects with income-restricted rents. During this time frame, new housing units built in or near Downtown have been limited to 367 below market-rate units.⁴

Economic Diversification and Housing

A focus on augmenting the Downtown housing inventory will contribute to citywide efforts to improve economic outcomes and diversify industry offerings. Traditional economic

³ Leyde, Tom. "Salinas Ag-Tech Center Bustling After First Year." *Monterey County Herald* Web. January 22, 2017. Accessed May 8, 2017.

⁴ City of Salinas Downtown Vibrancy Plan, Page 63.

development focuses primarily on cost-reducing incentives for business, but a holistic view of economic competitiveness also emphasizes the importance of “quality of place” and “quality of life” factors in attracting companies and individuals, establishing a good reputation, and fostering innovation.

Increasingly, economic growth is driven by knowledge workers, innovation, and entrepreneurship. Attracting talented people is an innovation imperative and cities distinguish themselves globally by broadly promoting urban development, especially downtown housing that invigorates the urban core and enhances quality of life factors for downtown workers.

In a report prepared for the U.S. Department of Commerce, Economic Development Administration, the U.S. Council on Competitiveness states:

Perceptions about quality of life in a region can heavily impact attraction and retention efforts of companies, skilled workers, and entrepreneurs. Talent is mobile, and quality of life has assumed greater importance in economic development practices as many regions have developed strategies to nurture the “creative class” (Asset Mapping Roadmap: A Guide to Assessing Regional Development Resources, The Council on Competitiveness, 2006).

Since the recession, City centers have had an edge over suburban job centers, owing largely to shorter commutes and the greater cultural richness found in downtown districts. A recent report by urban think tank City Observatory confirms the competitiveness potential inherent in a strong downtown:

Over the past few years, urban populations in America’s cities have grown faster than outlying areas, and our research shows that jobs are coming with them ... The strength of city centers appears to be driven by a combination of the growing attractiveness of urban living, and the relatively stronger performance of urban-centered industries (Surging City Center Job Growth, City Observatory, 2016).

Put simply, build a great city, and the jobs will follow. Land use decisions are central to a City’s capacity to compete for jobs and economic growth. The community’s ability to steer and support investment that results in vibrant, engaging, and contemporary places is central to its ability to compete for growth. The economic development potential of downtown requires a modern, holistic approach that embraces wide ranging investments, including in new housing.

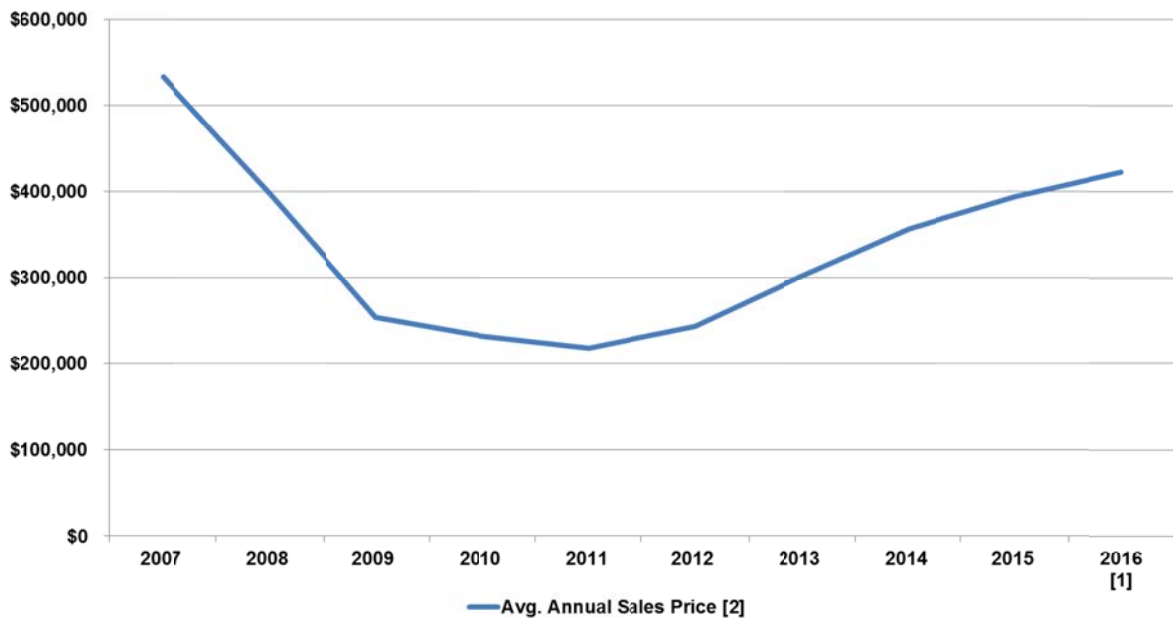
To that end, this chapter offers an overview of residential real estate market performance metrics, estimated residential market demand in Downtown Salinas and associated sources of residential housing demand in terms of target consumer segments that would be most inclined to locate in Downtown Salinas. This evaluation highlights existing, underserved sources of demand and potential, as yet uncaptured consumer segments and leads to an evaluation of the sources of market risk leading to unrealized private investment activity.

Residential Real Estate Market Performance Indicators

Single-Family Residential

According to Zillow.com research, the average annual sales prices for single-family residential homes peaked in 2007 at approximately \$534,000. During the Great Recession, single-family home sales prices plummeted to a 2011 low of \$218,000. Over the last 5 years, sales prices have steadily recovered and averaged approximately \$423,000 in 2016, as shown in **Figure 2-1**. Continuing robust home sale prices and low inventories suggest a tightening market, exacerbated by the absence of new ownership product.

Figure 2-1
Salinas Single-Family Residential Average Annual Home Sales Price



Source: Zillow; Redfin.

[1] Zillow's data source provided only through June 2016. The average home sales price for the balance of the year reflects the monthly average home sales prices reported by Redfin.

[2] Based on the average of monthly median sale prices per year.

Little new home building has occurred in Salinas since before the Great Recession. Builders are delivering new homes in nearby communities of Marina, Soledad, and Hollister, yet this activity has not gained traction in Salinas, primarily because of the absence of large scale entitlement activity. The City is processing entitlements for two large scale Specific Plans—the West Area Specific Plan (WASP) and the Central Area Specific Plan (CASP)—in the northern portion of the City that will provide the potential for significant levels of new housing product and may partially

mitigate pent up demand. Together, the WASP and CASP have the potential to add up to approximately 8,300 residential units to the City's housing stock within the next 15 to 30 years.⁵

Multifamily Residential

Multifamily properties near Downtown⁶ and citywide have become highly competitive in the past few years and have experienced increasing occupancies, which has led to a sharp climb in asking rents. Since 2012, multifamily unit average asking rents near Downtown have risen from \$1,078 to \$1,398, or a 30-percent increase, as shown in **Table 2-2**.⁷ In addition, apartment vacancy rates near Downtown, citywide, and in the Salinas multifamily residential market area are exceptionally low, ranging from 1.5 percent to 1.9 percent vacant, as shown in **Table 2-3**.

Discussions with City staff and review of local newsprint suggest that the multifamily rental market conditions are more extreme than data gathered by real estate research aggregate sources suggests.

Conversations with City staff and developers indicate that higher quality rental products are demanding substantially higher rents than shown in **Table 2-2**, potentially averaging closer to \$2,000 per unit. As asking rents dramatically increase, many renters are sacrificing their health and wellbeing in order to provide housing for their families. The Monterey County Weekly, a locally owned and independent news media, catalogues several articles from 2015 and 2016 that document crowding living conditions, where three or more families inhabit a single apartment or housing unit. This has created dangerous living conditions as families live in makeshift bedrooms or other substandard environments.

Despite climbing rents, tremendously low vacancy rates, and overcrowding, Salinas has also faced a dearth of multifamily residential development activity. Very few new multifamily projects have been introduced in Salinas since 2007; primarily affordable housing developments, they have done little to relieve pent up market demand.

Estimated Residential Demand

Residential real estate market indicators suggest that market fundamentals are in place to stimulate new investment in Downtown residential development. Questions linger, however, regarding the sources of demand for new housing products and the consumer segments that would be most likely to buy or rent in Downtown Salinas. This section synthesizes recent housing market studies and analyses completed to bracket demand for rental housing in Downtown Salinas and offers additional analysis of potential demand for ownership housing.

⁵ Per City staff, the WASP is expected to add up to 4,340 units and the CASP is expected to add between 3,419 to 3,983 units.

⁶ Within a 1-mile radius from the intersection of East Alisal Street and Monterey Street.

⁷ Reviewed again in December of 2016, average asking rents for apartments within a 1-mile radius from the intersection of East Alisal Street and Monterey Street have risen to \$1,421 per unit.

Average Asking Rent

**Table 2-2
Salinas Housing Target Market Analyses
Multifamily Market Metrics
Average Asking Rent**

Market	2007 Q2		2008 Q2		2009 Q2		2010 Q2		2011 Q2		2012 Q2	
	Average Asking Rent	Rent per Sq. Ft.	Average Asking Rent	Rent per Sq. Ft.	Average Asking Rent	Rent per Sq. Ft.	Average Asking Rent	Rent per Sq. Ft.	Average Asking Rent	Rent per Sq. Ft.	Average Asking Rent	Rent per Sq. Ft.
1 Mile Radius (E Alisal St. & Monterey St.)	\$1,013	\$1.39	\$1,063	\$1.46	\$1,064	\$1.46	\$1,046	\$1.44	\$1,059	\$1.46	\$1,078	\$1.48
City of Salinas	\$955	\$1.22	\$1,002	\$1.28	\$984	\$1.25	\$987	\$1.26	\$1,011	\$1.29	\$1,012	\$1.29
Inland Monterey County	\$949	\$1.19	\$995	\$1.25	\$977	\$1.23	\$979	\$1.23	\$1,001	\$1.26	\$1,008	\$1.26
Salinas MFR Market Area	\$1,008	\$1.25	\$1,050	\$1.30	\$1,042	\$1.29	\$1,034	\$1.28	\$1,054	\$1.30	\$1,071	\$1.32

Source: CoStar; EPS.

[1] Reviewed again in December 2016, average asking rents for apartments within 1-mile radius from the intersection of East Alisal Street and Monterey Street have risen to \$1,421 per unit.

12

Average Asking Rent

**Table 2-2
Salinas Housing Target Market Analyses
Multifamily Market Metrics
Average Asking Rent**

Market	2013 Q2		2014 Q2		2015 Q2		2016 Q2 [1]		Average (2007-2016)		Average Annual Percent Change	
	Average Asking Rent	Rent per Sq. Ft.	Average Asking Rent	Rent per Sq. Ft.	Average Asking Rent	Rent per Sq. Ft.	Average Asking Rent	Rent per Sq. Ft.	Average Asking Rent	Rent per Sq. Ft.	Average Asking Rent	Rent per Sq. Ft.
1 Mile Radius (E Alisal St. & Monterey St.)	\$1,103	\$1.52	\$1,185	\$1.63	\$1,295	\$1.79	\$1,398	\$1.94	\$1,130	\$1.56	3.6%	3.8%
City of Salinas	\$1,052	\$1.34	\$1,087	\$1.38	\$1,189	\$1.52	\$1,290	\$1.65	\$1,057	\$1.35	3.4%	3.4%
Inland Monterey County	\$1,043	\$1.30	\$1,081	\$1.35	\$1,170	\$1.47	\$1,259	\$1.58	\$1,046	\$1.31	3.2%	3.2%
Salinas MFR Market Area	\$1,105	\$1.36	\$1,149	\$1.42	\$1,252	\$1.55	\$1,324	\$1.63	\$1,109	\$1.37	3.1%	3.0%

"asking_rent"

Source: CoStar; EPS.

[1] Reviewed again in December 2016, average asking rents for apartments within 1-mile radius from the intersection of East Alisal Street and Monterey Street have risen to \$1,421 per unit.

Vacancy Rates

Table 2-3
Salinas Housing Target Market Analyses
Multifamily Market Metrics
Vacancy Rates

Market	2007 Q2	2008 Q2	2009 Q2	2010 Q2	2011 Q2	2012 Q2	2013 Q2	2014 Q2	2015 Q2	2016 Q2	Average (2007-2016)
1 Mile Radius (E Alisal St. & Monterey St.)	5.1%	4.4%	5.4%	3.7%	5.1%	3.5%	2.4%	1.5%	1.4%	1.6%	3.4%
City of Salinas	5.2%	4.5%	5.0%	3.6%	4.0%	3.2%	2.2%	1.6%	1.7%	1.9%	3.3%
Inland Monterey County	5.1%	5.5%	5.1%	3.8%	4.0%	3.6%	2.3%	1.6%	1.7%	1.8%	3.5%
Salinas MFR Market Area	4.9%	4.8%	4.8%	3.6%	3.7%	3.1%	2.1%	1.6%	1.4%	1.5%	3.2%

Source: CoStar; EPS.

"vacancy"

It is important to note that this section does not offer an exhaustive evaluation of the Downtown housing market, and draws from market and planning studies previously completed as well as supplemental analysis and evaluation of the market. Downtown development sites offer limited capacity, and the intent of this analysis is to identify whether certain demand thresholds can be met – in other words, does sufficient demand exist to absorb a limited number of units in the Downtown should a catalyst project move forward? If such demand does exist, what are the key market segments that should be targeted by a catalyst effort?

The sections to follow offer a synopsis of projected population and household growth in Salinas, and provide estimates of the demand potential for Downtown Salinas giving consideration to estimated household growth in Salinas and neighboring communities comprising the residential market area.

Population and Household Characteristics and Growth Projections

Shown in **Table 2-4**, the Association of Monterey Bay Area Governments (AMBAG) published population and household projections for Monterey County and each city in Monterey County. AMBAG projects moderate rates of growth for Salinas, projecting a total of 7,500 new households, or an average annual increase of 0.81 percent, over the next 20 years, and nearly 1,800 households between 2015 and 2020. This projection obscures, however substantial pent-up demand for housing in Salinas, and issues related to overcrowded housing conditions and lack of new residential entitlements restricting Salinas's ability to capture demand within the greater market area.

Demand for Rental Housing

In October, 2015, The Concord Group (TCG) conducted a detailed study of anticipated demand for rental housing products in Downtown Salinas. This analysis evaluated projected household growth in the defined market area by income segment over the next 5 years, the proportion of households likely to rent versus purchase a home, and expected capture of rental units in the City generally and Downtown specifically. Based on this analysis, TCG concludes that Downtown Salinas can support absorption of 100 units annually in the Downtown, mostly for units commanding rents between \$1,200 and \$2,200 per month. EPS concurs with these conclusions, although we do anticipate that actual market capture could potentially exceed the levels projected by TCG over the long term as the Downtown environment continues to improve and attract additional investment. The Concord Group's analysis is reproduced in **Table 2-5**, for reference.

Demand for Ownership Housing

For purposes of analytical consistency, EPS used a similar analysis framework to evaluate the demand for new ownership product in Downtown Salinas. Summarized in **Table 2-6**, EPS estimates that Downtown Salinas could absorb between 50 and 100 ownership units over the

**Table 2-4
Salinas Housing Target Market Analyses
Population and Household Projections**

Item	2015	2020	2025	2030	2035	Increase (2015-2035)		
						Amount	Percent	Avg. Annual Percent
POPULATION								
AMBAG Estimate/Forecast								
Salinas	159,486	166,303	170,824	175,442	180,072	20,586	12.9%	0.61%
Monterey County	431,810	448,211	462,678	476,588	489,451	57,641	13.3%	0.63%
AMBAG Region [1]	762,676	791,600	816,900	840,100	862,200	99,524	13.0%	0.62%
HOUSING UNITS								
AMBAG Estimate/Forecast								
Salinas	43,001	44,797	46,683	48,805	50,505	7,504	17.5%	0.81%
Monterey County	139,177	144,491	149,032	153,708	158,151	18,974	13.6%	0.64%
AMBAG Region [1]	262,660	273,606	282,368	290,225	297,851	35,191	13.4%	0.63%

"projections"

Source: AMBAG Final Draft 2018 Regional Growth Forecast, September 26, 2016.

[1] Includes countywide data for Monterey County, San Benito County, and Santa Cruz County.

Table 2-5
Salinas Housing Target Market Analyses
Estimated Annual Downtown Renter-Occupied Unit Residential Demand [1]

Renter-Occupied Residential Demand

Household (HH) Income Range	Annual Primary Market Area (PMA) Projected New HH Demand [2]			Salinas Capture [3]	Psychographic Capture "Urbanity" [4]	Percent of Income Spent on Housing	Average Monthly Housing Expenses (Achievable Rents)	
	Annual Effective New HHs	Percent Rent	Annual New Rental HHs					
<i>Formula:</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D = B * C</i>	<i>E = D * 60%</i>	<i>F * 40%</i>	<i>G</i>	<i>H = A * G</i>
\$0 - \$25,000 [5]	39	70%	28	17	7	53%	\$0 - \$900	
\$25,000 - \$35,000	26	65%	17	10	4	44%	\$900 - \$1,200	
\$35,000 - \$50,000	67	55%	37	22	9	40%	\$1,200 - \$1,600	
\$50,000 - \$75,000	173	50%	87	52	21	34%	\$1,600 - \$1,900	
\$75,000 - \$100,000	165	45%	75	45	18	28%	\$1,900 - \$2,200	
\$100,000 - \$150,000	228	40%	92	55	22	23%	\$2,200 - \$2,500	
\$150,000 - \$200,000	98	35%	35	21	8	19%	\$2,500 - \$2,800	
\$200,000 - \$250,000	86	25%	22	13	5	26%	\$2,800 - \$3,100	
\$250,000 - \$500,000	39	18%	8	5	2	12%	\$3,100 - \$3,800	
\$500,000 +	18	15%	3	2	1	10%	\$3,800 +	
Subtotal/Weighted Average	939		404	242	97			
Income Qualified (\$900+ per Month)				225	90			

"mfr_demand"

Source: The Concord Group, October 2015; EPS.

[1] Analysis reflects the estimated annual demand for owner-occupied residential units in Downtown Salinas based on recent economic conditions.

[2] The Primary Market Area includes the cities and unincorporated Monterey County communities of Salinas, Prunedale, Soledad, Gonzales, King City, Greenfield, and other rural areas of inland Monterey County.

[3] Assumes 60% of the PMA.

[4] Assumes 40% of Salinas capture.

[5] Assumes this income range will primarily be served by income-restricted affordable units.

Table 2-6
Salinas Housing Target Market Analyses
Estimated Annual Downtown Owner-Occupied Unit Residential Demand [1]

Owner-Occupied
Residential Demand

Household (HH) Income Range	Annual Primary Market Area (PMA) Projected New HH Demand [2]			Salinas Capture [3]	Psychographic Capture "Urbanity" [4]	Percent of Income Spent on Housing	Average Monthly Housing Expenses	Approximate Achievable Home Prices	
	Annual Effective New HHs	Percent Own	Annual New Ownership HHs						
<i>Formula:</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D = B * C</i>	<i>E = D * 60%</i>	<i>F * 40%</i>	<i>G</i>	<i>H = A * G</i>	<i>[5]</i>
\$0 - \$25,000 [6]	39	30%	11	7	3	53%	\$0 - \$900	\$0 - \$125,000	
\$25,000 - \$35,000	26	35%	9	5	2	44%	\$900 - \$1,200	\$125,000 - \$175,000	
\$35,000 - \$50,000	67	45%	30	18	7	40%	\$1,200 - \$1,600	\$175,000 - \$225,000	
\$50,000 - \$75,000	173	50%	86	52	21	34%	\$1,600 - \$1,900	\$225,000 - \$275,000	
\$75,000 - \$100,000	165	55%	90	54	22	28%	\$1,900 - \$2,200	\$275,000 - \$325,000	
\$100,000 - \$150,000	228	60%	136	82	33	23%	\$2,200 - \$2,500	\$325,000 - \$375,000	
\$150,000 - \$200,000	98	65%	63	38	15	19%	\$2,500 - \$2,800	\$375,000 - \$400,000	
\$200,000 - \$250,000	86	75%	64	38	15	26%	\$2,800 - \$3,100	\$400,000 - \$450,000	
\$250,000 - \$500,000	39	82%	31	19	8	12%	\$3,100 - \$3,800	\$450,000 - \$550,000	
\$500,000 +	18	85%	15	9	4	10%	\$3,800 +	\$550,000 +	
Subtotal/Weighted Average	939		535	322	130				
Income Qualified (Salary \$75,000+)				240	97				

"sfr_demand"

Source: The Concord Group, October 2015; EPS.

- [1] Analysis reflects the estimated annual demand for owner-occupied residential units in Downtown Salinas based on recent economic conditions.
- [2] The Primary Market Area includes the cities and unincorporated Monterey County communities of Salinas, Prunedale, Soledad, Gonzales, King City, Greenfield, and other rural areas of inland Monterey County.
- [3] Assumes 60% of the PMA.
- [4] Assumes 40% of Salinas capture.
- [5] Approximate achievable home prices includes the following assumptions based on the Average Monthly Housing Expenses (J): 30 year loan, 5.5% mortgage interest, 10% down payment, and 2% annual home taxes and insurance.
 These assumptions are generally conservative and accommodate insurance coverage in addition to homeowner's insurance (e.g., mortgage or flood), or special taxes and assessments that may be liened on the property. This analysis does not assume HOA fees.
- [6] Assumes this income range will be served primarily by income-restricted affordable units.

next 5 years, assuming 60 percent of demand generated by the primary market area⁸ is absorbed by the City, and 40 percent of those households are inclined to purchase in a more urban, downtown environment.⁹ Again, this estimate offers a baseline threshold for analysis. Future prospects would likely improve once initial, catalytic projects materialize and the market for residential development Downtown is proven.

Based on the analysis of household demand by income segment, ownership housing in the Downtown should primarily target entry level homebuyers with a household income of at least \$75,000. Supportable home prices for this income segment would average approximately \$300,000, although there is likely also support for some more upscale housing to attract upper income homebuyers desiring to live in an urban environment. The provision of new housing stock for entry level homebuyers would address a currently unfulfilled source of demand. While rental rates in the City are extremely high, a trend that generally encourages recalcitrant buyers to purchase, the lack of desirable housing stock in desirable neighborhoods constrains home buying activity. At \$2,000 per unit, families can realize the opportunity to purchase a home starting around \$275,000, given the ability to secure adequate funds for a down payment, or meet certain qualifications to purchase a home with little or no down payment.

Sources of Residential Demand

Myriad studies have documented national trends identifying emerging consumer preferences for downtown, urban environments. The oft-cited "millennial" cohort is the primary driver of this consumer shift, as they tend to seek walkable, dense urban environments close to dining, retail, and other entertainment options. Other consumer segments demonstrate similar housing choices, most notably active retirees seeking to downsize and relocate to a more urbanized and amenitized location. As discussed previously, Salinas also houses a large segment of the County's low income population. Access to transit and other Downtown amenities and services suggest that this income segment would be well served by additional housing options in Downtown.

This section offers a further evaluation of these target market segments that would be most likely to purchase or rent a home in Downtown Salinas, should housing products desirable to those segments be offered.

Target Market Segments

Young Professionals

Millennials demonstrate a much higher propensity to rent versus own, and new household formation driven by this cohort has yet to materialize at substantive levels. More recent studies and analysis suggest that millennial home purchasing patterns do not vary widely from more

⁸ The primary market area is defined as non-coastal Monterey County and comprises the cities of Salinas, Soledad, Gonzales, King City, and Greenfield, the unincorporated community of Prunedale, and other non-coastal rural areas.

⁹ The analysis, reflecting the same methodology conducted by TCG, is based on psychographic capture scenarios based on Lifestyle Segmentation Data (i.e., demographic preferences) reflected in the Primary Market Area (see **Table 2-5** and **Table 2-6**).

traditional patterns and those millennials that are purchasing homes are choosing to locate in first-tier suburbs as opposed to the urban core. It is difficult to know, however, if this trend is truly driven by locational preferences or is a function of economic realities as there is a statewide shortage in entry-level ownership housing product, and many millennials have not been able to save money for a down payment.¹⁰

This growing segment of potential renters and home buyers tends to be young college educated couples with dual-incomes and no children, or just beginning a family. Many members of this buyer segment are accustomed to sharing small living conditions, which has influenced a change from desiring space quantity to space quality, or utilization. Home builders have adapted to this priority of space quality by building well designed, open layout small homes that sell the appeal of an active, social lifestyle, rather than the ideals of having a large yard and floor plan of previous generations. The young professional market segment could drive demand for both rental and entry-level ownership product in Downtown Salinas.

Empty Nesters

Well-off empty nesters looking to downsize are also key drivers of residential housing demand in more urban environments. Many empty-nester baby boomers are flocking to newer infill communities, in many cases seeking the opportunity and ability to “age-in-place.” This demographic is more likely to seek an ownership product, but may also be interested in higher end rental product. For this market segment, condominium or stacked flats are ideal products, as these products tend to be single-story, allowing the consumer to easily age in the home.

Low Income Households

As current overcrowded conditions demonstrate, demand for affordable housing products is also high. Primarily because of the low cost of land and City housing policies, much of the Monterey County affordable housing inventory is concentrated in Salinas, and subsidized product in the City will draw demand from throughout the County. Housing experts indicate that demand for subsidized rental products far outstrips current supply, and supply continues to be diminished as Peninsula landlords turn away from affordable offerings in favor of market rate products. Deed restricted affordable housing can be a very attractive and helpful adjunct to the market rate prototypes discussed in this report, but should be developed in a dispersed pattern to the extent possible.

Other Sources of Residential Demand

The above-identified market segments represent the most likely sources of demand for Downtown housing products. There are several other trends and conditions that could contribute to and bolster demand for residential development in Salinas generally and Downtown specifically:

- Many households in the Bay Area, Silicon Valley and Southern California are evaluating relocation options to escape skyrocketing rents brought on by the current housing shortage. According to Census data, approximately 15 percent of employed residents in Salinas

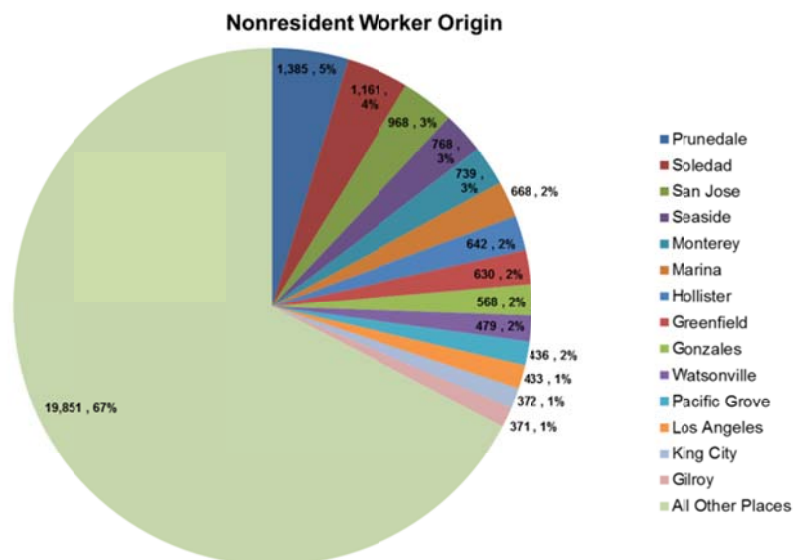
¹⁰ Vassel, Kathryn. “The Struggle is Real for Millennial Homebuyers.” *CNN Money* Web. April 3, 2017. Accessed May 8, 2017.

commute to Santa Clara, San Mateo, Alameda, and San Francisco, as of 2014 Q2. That percentage could rise as people continue to flee these high cost areas, which was a trend supported anecdotally during interviews for this project. To capture this demand, Salinas will have to compete for market share with other nearby jurisdictions (Hollister, San Juan Bautista, Gilroy) by generating housing options and products appealing to this home-buying segment. Salinas’ charming downtown, which has experienced improvement and support from the SCCIA, is well positioned to attract professionals and families fleeing the skyrocketing living costs in larger metros throughout the state.

- Similarly, homebuyers priced out of new housing stock on the Peninsula may be convinced to purchase homes in Salinas if the right housing stock is available at a more accessible price point. Salinas offers a much more accessible real estate market for millennials looking to buy their first home. Monterey County is a well-known education cluster, but many graduates depart the region upon graduation primarily because of lack of housing and job options. Coupled with economic diversification efforts described below, high quality new housing in Salinas could capture more of this market segment.
- Efforts to expand the economic base in Salinas, consistent with objectives set forth in the Draft EDE to diversify employment opportunities, will be a critical, long-term element of establishing demand for Downtown housing stock. The City’s focus on agriculture technology, energy sectors, and other knowledge intensive industry segments will require attracting an educated and reliable workforce – providing housing opportunities that appeal to that segment is critical. To the extent that new employment opportunities are offered proximate to Downtown, efforts to bolster the Downtown housing stock will be reinforced, and vice versa. The Taylor Farms Headquarters building, anticipated to house 350 employees in the Downtown, offers a promising start to such efforts.

According to Census data, more than 30,000 people commute into Salinas for work daily, contributing to regional traffic bottlenecks. Shown in **Table 2-7**, the composition of this workforce includes concentrations of middle and upper income earners, with more than 9,800 in-commuting employees earning more than \$3,334 per month (\$40,000 per year). Over time, many people

employed in Salinas have moved to the Corral de Tierra and El Toro communities, just outside the City, and much of the City’s higher wage-earning employees are concentrated in these areas. Most of the in-commuting population originates from these unincorporated Monterey County and Peninsula communities and other outlying



suburbs. There is a potential to entice a small subset of these employees to shorten their commute and purchase or rent a home in Downtown Salinas by providing a heretofore unavailable housing product.

This analysis and evaluation suggests that demand for residential housing exists, particularly in targeted consumer segments. Target market segments are likely to be young singles and couples looking to rent or for entry level ownership housing as well as Baby Boomers and empty nesters looking to downsize into a smaller, predominantly ownership product close to amenities. Demand generated by lower income segments looking for subsidized housing product is essentially unlimited. Overall, it is clear that sizeable demand for new residential products serving multiple populations and at varying price points exists in Salinas, and development in Downtown proximate to Downtown amenities is likely to be well received by the market. Despite that level of demand however, housing development of significant scale has yet to materialize in Downtown Salinas. This condition is likely attributable to significant sources of market risk that detract from the attractiveness of Downtown Salinas as an investment opportunity.

Sources of Market Risk

Construction of new housing in Downtown Salinas to meet existing market demand and to serve underserved market segments has not materialized at significant levels, despite strong market fundamentals suggested by increasing rents, rapid absorption and declining vacancies. As will be discussed further in the subsequent chapter, supply of appropriately located and configured land is not a significant constraint. Much of the lack of private investment activity can be attributed to the risk profile associated with the City of Salinas generally, and downtown specifically, that limits investor interest. The following sources of market risk present significant barriers to new Downtown housing development:

- **Crime and Public Safety.** With a violent crime rate exceeding national averages and at least 22 known gangs operating in Salinas, the City has gained a reputation as the “murder capital of California.” While locals familiar with Salinas recognize that crime largely exists in known areas and pockets, the statistics and associated media coverage generate a pervasive stigma that impedes the City’s ability to attract middle and upper income segments to live and work in the City, and suppresses any outside investor interest in developing in the community.
- **Homelessness.** Like communities across California, Salinas continues to struggle with a large homeless population. As Chinatown revitalization efforts move forward, there is concern that the homeless problem in Downtown Salinas will be exacerbated. As activity in Downtown Salinas increases, this problem will likely be mitigated, but is a short term and significant barrier contributing to perceived public safety issues.

Table 2-7
Salinas Housing Target Market Analyses
2014 Nonresident Worker Profile

Item	Number	Percent
Salinas Jobs Filled by Nonresident Workers		
	29,471	100%
Worker Ages		
29 Years or Younger	6,955	24%
30 Years to 54 Years	15,433	52%
55 Years or Older	7,083	24%
Total	29,471	100%
Monthly Worker Earnings		
\$1,250 or Less	8,053	27%
\$1,251 to \$3,333	11,604	39%
\$3,334 or More	9,814	33%
Total	29,471	100%
Worker Industry Class		
"Goods Producing" [1]	10,245	35%
"Trade, Transportation, and Utilities" [2]	6,008	20%
"All Other Services" [3]	13,218	45%
Total	29,471	100%

"nonres_worker"

Source: US Census Bureau, OnTheMap Application and LEHD Origin-Destination Statistics for 2014 Q2.

[1] Bureau of Labor Statistics (BLS) identifies Agriculture, Forestry, Fishing, and Hunting (NAICS 11); Mining, Quarrying, and Oil and Gas Extraction (NAICS 21); Construction (NAICS 23); and Manufacturing (NAICS 31-33) as industries in this industry class.

[2] BLS identifies Wholesale Trade (NAICS 42); Retail Trade (NAICS 44-45); Transportation and Warehousing (NAICS 48-49); and Utilities (NAICS 22) as industries in this industry class.

[3] Includes all other NAICS industry classes not listed above.

- **Open Space.** Downtown Salinas does not offer substantial open space and other recreational amenities needed to serve new residents, and additional such amenities will be an important part of attracting the desired community segments. Plans for downtown parks do exist, and need to be carefully implemented in coordination with the addition of new residential units to ensure that they are appropriately activated by residents and employees. As noted later in this report, unit-specific open space requirements (e.g., landscaped courtyards specifically tied to units) could be reduced to improve the overall financial feasibility of market-rate apartment development. Shifting this private space to publicly-oriented common open space would mirror best practices in the industry and improve the overall livability of Downtown Salinas.
- **Schools.** School performance in Salinas is lower than neighboring communities (namely communities located on the Peninsula) and will continue to be a constraint on growth and the performance of the residential real estate market. It is important to note that Downtown Salinas is located in one of the City's most desirable school districts, helping to mitigate this issue to a certain extent.
- **Regional Traffic Bottlenecks.** Monterey County is plagued by several regional traffic bottlenecks, with inadequate transportation infrastructure and mass transit options leading to unsafe conditions and long delays. Improvements to Salinas's jobs-housing match would improve the probability that citizens can live and work without using the regional road network, but relies on other factors that improve Salinas's ability to attract base sector jobs and provide desirable housing options. The Salinas rail extension, a \$69.7 million project led by the Transportation Agency for Monterey County (TAMC), will extend Amtrak's Capitol Corridor from its current terminus in San Jose to Salinas. The project, intended to be completed by 2020, is currently in the design and engineering phase. Construction on the rail line extension is slated to begin in 2018. A dependable and robust commuter train linkage to the South Bay could help mitigate commute issues and represents a major opportunity to better position Salinas to attract satellite job centers and added housing.
- **Untested Market.** From a residential investment standpoint, Salinas is an untested market and will require several successful "demonstration" projects before the market will gain any momentum of note. It is not clear if Salinas's downtown can command the same type of millennial and baby boomer market demand that other communities have generated, primarily because of issues associated with market stigma that will need to be mitigated or overcome. The rapid acceptance of recent adaptive reuse projects converting upper floor uses to residential units offers an indication that demand for Downtown housing does exist, and will bolster efforts to provide new residential products at a more aggressive scale.

These sources of market risk are the primary contributors to the market failure at work in Downtown Salinas. Other factors include a cumbersome policy and regulatory framework that stifles development activity. The next chapter offers a summary of site opportunities and constraints, including an assessment of public policy and regulatory constraints complicating efforts to attract private investment.

3. OPPORTUNITY SITE ANALYSIS

The prior chapter identified key sources of demand for new residential products in Downtown Salinas and identified key consumer segments likely to purchase or rent homes in the Downtown Area. This chapter synthesizes the demand for new housing in terms of real estate prototypes appealing to the identified target market segments, available sites in Downtown that can accommodate that type of development, and site characteristics that would maximize the potential for a successful development project, taking the location and site preferences of the target market segment into consideration.

Target Residential Prototypes

The following real estate prototypes would be most appropriate to meet the demand generated by the target market segments identified in the preceding chapter:

- For-Sale High-Density Attached Single-Family.** Entry-level homebuyers accustomed to a single-family home, but interested in living near Downtown amenities, would be the target market for this product type. Characterized by townhomes or row houses sharing a wall on each side, this product could achieve densities approaching 30 units per acre. Homebuyers in this segment are generally seeking smaller units with associated entry level home pricing allowing them access to the market.
- For Sale Multifamily.** For sale multifamily products may take the form of a condominium product, likely configured as “stacked-flats” to maximize appeal to market segments looking for “age in place” opportunities. As implied by the name, stacked flats are one-story units stacked one above the other, offering one-story apartments and avoiding interior stairs associated with the side by side townhouse format. This format has also demonstrated appeal to young professionals looking for a more urban and accessible ownership product. This may represent a longer-term prospect requiring some degree of market maturation in the form of increased price points as other for-sale multi-family moves forward, demonstrating “proof-of-market”.

Target Housing Prototypes by Target Market Segment			
	Young Professionals	Empty Nesters	Low Income
HDR Attached (Townhome)	○	○	
Ownership MFR (Stacked Flats/Condos)	○	○	
Multifamily Rental (Market Rate and Affordable Apts)	○		○
Adaptive Reuse (Market Rate Rental or Ownership)	○	○	

- Rental Multifamily.** Rental multifamily products would take the form of 4- to 6-story apartments with associated parking in a “wrap” configuration where the apartment building wraps around the parking structure on 3 sides. Expected to achieve densities approximating 60 units an acre, this product could be constructed as a market rate or affordable product.

Market rate rentals would appeal to young professionals not yet ready to purchase, well off students, and other cohorts valuing proximity to Downtown amenities. Renters of subsidized units may assign less value to access to Downtown amenities, instead preferring safe and reliable access to various transit options and schools for families with school-aged children.

- **Adaptive Reuse.** 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.

Tables 3-1 and **3-2** offer illustrations of various new urban infill prototypes representing the products discussed above, identifying key development characteristics such as construction type, density, and other pertinent features of these example projects. The sections to follow offer a detailed evaluation of development opportunities to accommodate construction of these targeted residential prototypes, both through adaptive reuse of existing buildings and/or development of underutilized or vacant Downtown sites.

Adaptive Reuse Opportunities

Downtown Salinas has many beautiful, underutilized buildings, many with retail storefronts operating on the bottom floor, but underutilized upper floors offering opportunities for residential or other uses. Local developers have targeted several existing buildings for adaptive reuse projects. Proposed projects include converting the upper floors of the 6-story Rabobank building located at the intersection of Main Street and Alisal to rental apartments, repurposing the famed Dick Bruhn building on Main Street to accommodate a variety of rental products, and reuse of the former Greyhound Station with retail as well as rental and ownership residential products. Currently proposed adaptive reuse projects have the potential to add between 60 and 90 residential units of various sizes and configurations, including rental studio units, traditional apartments, lofts and ownership condominiums/townhomes.

A full inventory of underutilized space in the Downtown has not yet been conducted, but conversations with prospective adaptive reuse developers indicate these projects are difficult to achieve. Potential hazardous materials remediation, costly upgrades to electrical, plumbing and other building systems, unforeseen structural issues and other circumstances typical of adaptive reuse projects add to uncertainty and risk in an already challenged development environment. Furthermore, certain City policies are difficult to interpret for reuse projects, as will be discussed further below. Resulting delays during the review/negotiation process may prevent certain projects from realizing conversion to much needed residential uses in Downtown Salinas.

Prospective buildings must allow proper ingress/egress and offer other accessibility characteristics to conform to building code requirements and allow for favorable unit configurations with sufficient exposure to natural sunlight. Given these considerations, freestanding buildings or those buildings positioned at the end of a block offer the best

**Table 3-1
Salinas Housing Target Market Analyses
For-Sale High-Density Attached Single-Family Residential Prototypes [1]**

Project - Location [1]	Example/ Illustration	Density (As Shown)		Description
		FAR	DU/Acre	
2500 R - Sacramento, CA		n/a	29 DU/Ac.	Detached Max 3-Story Wood Frame Avg. Sq. Ft. - 1,533 Avg. Sales Price - \$411,250 \$268.26/Sq. Ft.
Tapestri Square - Sacramento, CA		n/a	23 DU/Ac.	Detached Max 3-Story Wood Frame Avg. Sq. Ft. - 2,043 Avg. Sales Price - \$601,333 \$294.34/Sq. Ft.
Town Center Homes - Scotts Valley, CA		n/a	19 DU/Ac.	Attached Max 3-Story Wood Frame Avg. Sq. Ft. - 2,293 Avg. Sales Price - \$606,199 \$264.37/Sq. Ft.

Sources: Pacific Housing Inc.; Tapestri Square; Redfin; and EPS.

[1] Examples may include small lot detached single-family homes.

"sfr_prototypes"

Table 3-2
Salinas Housing Target Market Analyses
For-Sale or Rental Multifamily Residential Development Prototypes [1]

Project - Location [1]	Example/ Illustration	Density (As Shown)		Description
		FAR	DU/Acre	
1801 L - Sacramento, CA		3.4	100 DU/Ac.	Renter occupied 3-story wood frame over 2-story concrete podium (1 underground) Avg. Sq. Ft. - 749 Avg. Rent - \$2,203
Walnut Commons - Santa Cruz, CA		N/A	59 DU/Ac.	Owner occupied 3-story reinforced concrete Avg. Sq. Ft. - 995 Avg. Sales Price - \$523,000 [2]
1010 Pacific Apartments - Santa Cruz, CA		2.9	185 DU/Ac.	Renter occupied 5-story reinforced concrete Avg. Sq. Ft. - 703 Avg. Rent - \$3,095
Theatre Square - Petaluma, CA		4.7	203 DU/Ac.	Renter occupied 3-story reinforced concrete Avg. Sq. Ft. - 1,004 Avg. Rent - \$2,374

Sources: CoStar; 1801 L; Fremont Mews; Woodmont Real Estate Services; and E&S Ring Management Corporation.

"mfr_prototypes"

[1] Examples may include a mixed-use residential development within the same density range as high density residential.

[2] Average sales price based only on two recent sales of \$585,000 and \$460,000.

opportunities for adaptive reuse, although other opportunities may exist for smaller reuse projects within inline spaces. Application of historic building standards may facilitate some adaptive reuse projects by relieving them of certain building standards that are difficult to attain in the adaptive reuse context.

Downtown Opportunity Sites

The Downtown Vibrancy Plan identifies 10 catalyst sites that are underutilized and well positioned for redevelopment. Some of these sites are privately owned while others are owned by the City of Salinas or County of Monterey and currently used for parking. Redevelopment of these publicly owned sites would require identification of on-site or nearby replacement parking and a public-private partnership between the private sector developer and the local government entity.

Figure 3-1 identifies the 10 opportunity sites evaluated as part of this analysis, categorized into the following four primary subareas:

- **Monterey Street.** Current parking lots 3 and 5 are located along Monterey Street immediately south of the Downtown core.
- **Government Center.** Parking Lots Y,GG, 17/NN, and Z are all located in the Government Center subarea, which contains City Hall, the County offices Post Office, federal offices and the court system.
- **Salinas and Gabilan Streets.** Proximity to the newly constructed Taylor Farms Headquarters benefit the opportunity sites located in this subarea, which include Lot 1 and the adjacent Greyhound Station, as well as Lots 8,10, and 12.
- **Intermodal Transit Center (ITC).** Located on the northern edge of Downtown Salinas, the ITC spans over 20 acres of underutilized space that can potentially be a key linkage between Downtown and Chinatown. At this time, development potential for the site is yet to be determined. The City intends to prepare a master plan for the ITC, which will address key accessibility issues to connect this piece and Chinatown to the Downtown grid. Additionally, City staff will need to address a need for parking at this site, as the Vibrancy Plan indicates the site will need to accommodate approximately 780 parking spaces for park and ride facilities for the future Amtrak extension from the Silicon Valley to Downtown Salinas.

Further review of these opportunity sites for purposes of this report reveals that Lots Y, Z, and 8 are encumbered with long term leases, have future plans for open space or parking, or constrained by utility easements. At this time these sites are not considered for housing development. In addition, the City owned Lots GG and 17/NN are currently encumbered by long term leases with the County, which limits the short term viability of redevelopment of those sites, but longer term redevelopment opportunities for mixed use and affordable multifamily housing remain.

Taking this updated information into consideration, based on identified lot size and assuming MX zoning, **Table 3-3** estimates the total residential development capacity assuming maximum allowable densities, which range from 60 to 80 units per acre. Using these simplistic



Downtown Opportunity Sites

Source: ESRI 2016, City of Salinas Downtown Vibrancy Plan 2015, Monterey County GIS 2016



Figure 3-1
Downtown Opportunity Sites
 Salinas Downtown Housing Target Assessment

**Table 3-3
Salinas Housing Target Market Analyses
Downtown Vibrancy Catalyst Sites Development Capacity**

Catalyst Site [1]	Lot Size (Sq. Ft.)	Lot Size (Acres)	Current General Plan Designation	City Overlay District [2]	Deed Restricted	Maximum Potential Density		Potential Dwelling Units [4]
						FAR	DU/Acres [3]	
Monterey Street								
Parking Lot 3	25,650	0.59	PS	CC	Yes	4.0	60.0	28
Parking Lot 5	45,000	1.03	PS	CC	Yes	4.0	60.0	49
Subtotal Monterey Street	70,650	1.62						77
Government Center								
Parking Lot Y & Unnamed Parking Lot [5]	100,700	2.31	PS	CC-DNA	Yes	N/A	N/A	N/A
Parking Lot GG [6]	35,000	0.80	PS	CC-DNA	Yes	4.0	80.0	51
Parking Lot 17 & NN (Combined) [6]	47,500	1.09	PS	CC	Yes	4.0	60.0	52
Parking Lot Z [5]	54,000	1.24	PS	CC	Yes	N/A	N/A	N/A
Subtotal Government Center	237,200	5.45						103
Salinas and Gabilan Streets								
Parking Lot 12	35,650	0.82	PS	CC	No	4.0	60.0	39
Parking Lot 10	31,450	0.72	PS	CC	Yes	4.0	60.0	34
Parking Lot 8 [5]	25,900	0.59	PS	CC	No	N/A	N/A	N/A
Parking Lot 1 & Greyhound Station	45,500	1.04	MX & PS	CC	Yes	4.0	60.0	50
Subtotal Salinas & Gabilan Streets	138,500	3.18						123
Intermodal Transit Center (ITC) [7]	N/A	N/A	CR & PS	CC-DNA	Yes	TBD	TBD	TBD
Total Development Potential	446,350	10.25						303

"catalyst"

Land Use Key:

- Public/Semi-Public (PS)
- Mixed Use (MX)
- Commercial Retail (CR)

Source: Downtown Vibrancy Plan; City of Salinas Code of Ordinances; EPS.

[1] See Vibrancy Plan Figure 5-1 Catalyst Sites.

[2] All catalyst development sites are within the Central City (CC) Overlay District, which supplements the base general plan designation for the purpose of establishing special use or development regulations for a particular area in addition to the provisions of the underlying general plan designation.

[3] Analysis reflects the maximum allowable dwelling units per acre without a density bonus. Analysis assumes all catalyst sites are rezoned to MX. Maximum densities for the City Overlay District are shown below.

CC: 60 DU/Acre.

CC-DNA: 80 DU/Acre. Note, must also be within 2,500 feet of the Intermodal Transit Center.

[4] Assumes 80% net developable area for the catalyst site.

[5] Catalyst sites are encumbered with long term leases, or constrained by utility easements. At this time these sites are not considered for housing development.

[6] Catalyst sites are constrained by encumbrances. Though not removed from development consideration, these sites should be viewed as mid- to long-term potential.

[7] The City plans to develop a master plan for the ITC. Potential development capacity is yet to be determined.

calculations, the total development capacity of these sites is roughly 300 units. Further site planning and design considering lot configuration, building design, amenities and common areas would be needed to ascertain potential actual unit yields for each site.

As previously discussed, adaptive reuse projects are also becoming an emerging source of potential added residential capacity in Downtown Salinas. To undertake an adaptive reuse project requires significant due diligence in order to identify accessibility, structural, zoning, and feasibility constraints with each project. Parcel-by-parcel surveying should be conducted to identify potential development capacity and the mitigation requirements needed to accomplish such effort.

EPS and EMC toured each catalyst site to gain an understanding of key site characteristics, including critical adjacencies, lot size and configuration, accessibility to downtown, and myriad other factors influencing the appropriateness of each site for targeted residential development. Summarized in **Table 3-4**, this qualitative evaluation provided a framework via which each site could be evaluated against the site characteristics valued by each target market segment. Certain qualities, such as school performance, proximity to grocery and related retail, and access to transit offered little to no variation across the opportunity sites. Key variables include site proximity to dining and entertainment options, character and quality of land use adjacencies, and perceptions regarding public safety informed primarily by said land use adjacencies and street activation. With this site analysis as a backdrop, **Table 3-5** offers an evaluation of site characteristics of import to each targeted market segment, identifying those variables most likely to inform location decisions for each segment. For example, walking access to dining and entertainment options will be important to the Young Professionals and Empty Nesters, but of less value to Low Income households. Based on this evaluation, EPS and EMC identified a prioritized set of "candidate catalyst sites" associated with each target market segment, as identified below:

- **Young Couples/Empty Nesters.** The proximity of Lot 3 to Downtown makes this site a primary candidate for catalyst ownership or market rate rental products. Lot 3 can easily accommodate new housing soon as there is excess capacity in the nearby Monterey Street parking garage that can absorb displaced parking. Lot 3's development potential may be limited by deed restrictions and ownership issues that may present obstacles to development, which should be addressed by the City as part of any development incentive package associated with this site. Lot 12 is another ideal location that can utilize nearby Lot 8 for parking. Lot 5, a secondary opportunity, is well positioned for a new residential project, but replacement parking would need to be coordinated prior to development.
- **Low Income Households.** With proximity to Downtown amenities being of less value to this cohort, key catalyst site opportunities include the ITC, Lots GG and 17/NN. These locations offer sizeable lots that offer flexibility for site design. Of the viable catalyst sites, Lots 17/NN and GG are two of the closest lots to Roosevelt Elementary School, located on Capitol Street between Central Avenue and W Gabilan Street, but those sites are encumbered by long term leases with the County and are therefore longer term prospects. Walkability and access to core amenities such as schools and grocery stores will be key for

Table 3-4
Salinas Housing Target Market Analyses
Catalyst Site Characteristics - Qualitative Analysis

Catalyst Site [1]	Ownership	Site Characteristics							Comments & Conclusions
		Proximity to Dining/ Entertainment	Proximity to Grocery, Pharmacy, or Other Stores	Access to Transit (Bus)	Proximity to Recreational Amenities and Open Space	Lot Configuration	Character/ Quality of Adjacencies	Perceived Public Safety [2]	
Monterey Street									
Parking Lot 3	Private	Great	Low	Great	Satisfactory	Great	Great	Great	Great location, walkway accessibility to Main Street. Closest quality site to Taylor and Steinbeck buildings. Great potential for market-rate/ownership product. City has nonexclusive easement which goes away if the site is no longer used for parking, meaning the City would have to acquire the site.
Parking Lot 5	City	Satisfactory	Low	Great	Satisfactory	Great	Satisfactory	Great	Well located. Slightly removed from higher value locations on Main Street. Clean, compatible adjacent uses. High potential for market-rate/ownership product.
Government Center									
Parking Lot Y [3]	City	Satisfactory	Low	Great	Satisfactory	Great	Satisfactory	Great	Large parcel that would allow flexibility of use; however, the site is encumbered by the County, which plans to construct a parking structure on the site.
Parking Lot GG	City	Low	Low	Great	Satisfactory	Great	Low	Low	On the edge of Downtown. Close to adjacent residential neighborhood. Site is a long term prospect because it is encumbered by a long-term lease with the County.
Parking Lot 17/NN (Combined)	City	Satisfactory	Low	Great	Great	Great	Low	Satisfactory	Good configuration and close to amenities such as recreation center, library, and bus stops. Site is a long term prospect because it is subject to land transaction limitations pursuant to County agreement in place.
Parking Lot Z	City	Low	Low	Great	Satisfactory	Satisfactory	Low	Low	Police fleet storage. Slated for open space in Downtown Vibrancy Plan. No long term plans for housing.
Salinas and Gabilan Streets									
Parking Lot 12	City	Satisfactory	Low	Great	Satisfactory	Great	Satisfactory	Satisfactory	Large, flexible site. Surrounded by non-residential urban uses. Direct visual access to Taylor building. Close access to transit. Good medium-term potential for high-end product, particularly if site is extended to include adjacent parcels.
Parking Lot 10	City	Satisfactory	Low	Great	Satisfactory	Low	Low	Satisfactory	Constrained size. Future plans should be made in concert with potential to acquire adjacent lots. Good long-term high end potential.
Parking Lot 8	City	Satisfactory	Low	Great	Satisfactory	Satisfactory	Low	Low	Inhibited by utility easements and a parking agreement with adjacent buildings. Should remain parking.
Parking Lot 1 & Greyhound Station	City/Private	Satisfactory	Low	Great	Satisfactory	Great	Satisfactory	Satisfactory	Includes a small lot under public ownership and adjacent lots that are privately owned. Planned mixed-use and residential construction for site.
Intermodal Transit Center	City/Private	Satisfactory	Low	Great	Satisfactory	Satisfactory	Low	Low	City has strong interest to develop master plan for TOD. Great long-term potential for housing and mixed use. Needs improved connections to Downtown grid.

Source: Downtown Vibrancy Plan; City of Salinas Code of Ordinances; EPS.

"catalyst_potential"

[1] See Vibrancy Plan Figure 5-1 Catalyst Sites.

[2] Perceived public safety relates to the general visibility of the project site and relative sighting of the catalyst site from adjacent uses. Increased visibility and "eyes on" the site improve perceived safety.

[3] Catalyst site is permanently encumbered by a lease with the County and is no longer considered for development.

Legend

Great Potential ●

Satisfactory Potential ●

Low Potential ●

**Table 3-5
Salinas Housing Target Market Analyses
Target Consumer Considerations Matrix**

Product/Site Considerations	Target Market Segments		
	Young Couples/ Professionals	Empty Nesters	Low-Income Households/ Affordable
Housing Product Preference	Could be rental or ownership product. Rental product could be market-rate apartments. Ownership product could be entry-level high-density attached or detached homes, or condominiums.	Primarily ownership, but could be interested in rental product. Align ownership products to be more upscale high-density attached or detached homes, or condominiums.	Product could be rent or income restricted affordable-rate apartments with high-quality finishes.
Consumer Location/Site Preferences			
Walkable to Restaurants, Dining, Entertainment	★	★	●
Walkable to Grocery, Pharmacy, or Other Stores	●	★	★
Transit (Bus) Access	●	●	★
Quality/Aesthetics/Character of Adjacent Buildings (i.e., compatibility w/character and activities in nearby bldgs.)	★	★	●
Compatibility of Adjacent Land Use (i.e., are nearby uses restrictive of residential uses?)	●	★	●
Visual Access to Value Aesthetic Features (e.g., Taylor building, Steinbeck Ctr., historic buildings)	★	★	
Parking Access/Convenience	★	★	●
Access to Parks, Plazas, Community Centers	●	●	★
On-Site Amenities	★	★	
Proximity to Schools	●		★

CANDIDATE CATALYST SITES [1] [2]			
Tier 1A	Lot 3	Lot 3	-
Tier 1B	Lot 12	Lot 12	-
Tier 2	Lot 5	Lot 5	ITC
Long Term	Lot 10 & ITC	Lot 10	Lot GG & Lot 17/NN

"consumer_matrix"

[1] See Table 3-3 and Table 3-4 for Catalyst Site characteristics.
 [2] Candidate Catalyst Sites are ranked by Tiers for their ability to accommodate a new development project in the near future. Below further describes each Tier.
Tier 1A: Immediately, or within very near term, to accommodate a project with little offsetting or mitigation.
Tier 1B: Capable of near term development, but contingent upon replacement parking.
Tier 2: Mid-term project (5+ years), contingent upon added parking and other infrastructure investment.
Long Term: Potential for development after earlier tiered projects prove strength in the market.

Legend	
Primary Considerations	★
Secondary Considerations	●

this product. As affordable products typically demonstrate very high quality design and finish, new development projects at these sites would create a pleasing perimeter and entrance to Downtown. Timing of construction would be contingent upon replacement parking, which could be accommodated by an added parking structure on Lot Z.

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 in this report. If a private sector investor expresses interest in other sites or development opportunities, the City should evaluate those opportunities consistent with the criteria and recommendations established in this report.

Regulatory Constraints and Barriers

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 designation.

Development within the City is governed by an extraordinarily complex set of zoning regulations that are difficult to navigate, and identifying applicable provisions and exceptions can be an enormous challenge. This difficulty in and of itself is a hindrance to development, as there are many opportunities for uncertainty and conflicting interpretation amongst City staff and their private sector counterparts. In addition, discussions with Downtown developers and other stakeholders suggest there is a perceived negative entitlement culture in the City that has constrained efforts to revitalize Downtown. Specific policy provisions identified as part of this review and associated implications are identified below.

Zoning and Density

Residential Only Projects

Downtown Core Area development regulations are outlined in Table 37-40.30 of the City's municipal code. The City's municipal code states that the maximum allowable density of residential only buildings with a Mixed Use (MX) underlying base district is 60 dwelling units per acre for development in the Central City (CC) Overlay District, and 80 dwelling units per acre for development in the CC-Downtown Neighborhood Area (DNA), within 2,500 feet of the ITC.

While many targeted prototypes can proceed within these density allowances, emerging development prototypes seen in urban centers elsewhere suggest that achieving densities on the order of 120 dwelling unit per acre offers more flexibility in project design, product offerings, and the ability to substantially improve revenue potential while achieving economies of scale relative to site development and other costs. In many cases, overcoming the fixed cost structure associated with this type of development requires larger scale developments on the order of between 100 and 200 units total. Given the size of the City's opportunity sites, increased densities may be needed to achieve sufficient scale for a financially viable project.

Mixed Use Projects

Mixed use buildings developed in the CC Overlay District, including the CC-DNA, are capped to a FAR of 4.0 for nonresidential development plus 80 dwelling units per acre. Residential uses may be substituted for nonresidential FAR, subject to an overall limit of 6.0 FAR for the total project.

Guiding policy includes a footnote (Table 37-40.30 Footnote C) that states, "The method of relating floor area ratio and dwelling units per acre equates forty dwelling units per acre to a 1.0 floor area ratio. Any combination of this ratio may be used to determine appropriate residential density on a site, such as 0.25 FAR = 10 dwelling units per acre and 0.5 FAR = 20 dwelling units per acre." Footnote C has made this zoning policy difficult to interpret, as indicated by a 2005 Cotton/Bridges/Associates (CBA) memorandum prepared to clarify the policy.

CBA conveys that the City determines that the maximum allowable number of units allowed within a building is confined to standards that assume the residential dwelling unit is 1,000 square feet, thereby roughly equating to 40 dwelling units per acre to an FAR of 1.0. The current policy provisions are unclear whether a developer can construct smaller units generating the same FAR but higher unit counts under the current provisions.

Current City application of this policy is to limit the allowed units by dwelling units per acre, again equating 40 dwelling units per acre to an FAR of 1.0 to derive the total allowable units. This limits development potential for developers who seek to construct units that average less than 1,000 square feet, an issue that has arisen with respect to at least one adaptive reuse proposal targeting construction of "micro-units" an emerging product gaining traction in other urban centers.

Usable Open Space Requirements

The City requires the provision of usable open space for high-density residential uses. "Usable open space" is defined as follows:

An accessible portion of a lot, including decks, swimming pools, balconies, and the like, which is landscaped and/or developed for recreational use or outdoor activities. Usable open space shall not include the floor area of any building other than unenclosed accessory structures designated or used for open space or recreational purposes, any parking spaces, parking lots, or driveways, except as provided in this section, service areas, or slopes over ten percent, and shall not have any dimension less than ten feet, except decks or balconies, which shall not have any dimension less than six feet to qualify as usable open space. Where decks are private in nature or are for the general use of tenants residing on the property and do not serve primarily as a passageway, such decks may be counted as usable open space when otherwise conforming with the requirements of this Zoning Code. Usable open space does not include required front or corner side yards...

The general requirement for high-density residential development is 500 square feet per unit. In the MX – Mixed Use zoning district, the requirement is reduced to 250 square feet per unit for developments that include only studio, one bedroom, and two bedroom units (note "O" to Table 37-40.30; see also next section on unit size requirements). In addition to the overall

requirement ratio and the minimum dimensions listed in the definition, there is a minimum of 400 square feet for each area of usable open space provided.

Alternatively, per City ordinance, usable open space requirements for residential development in a mixed-use building are reduced to 100 overall square feet per unit (60 square feet for private usable space, and 40 square feet for common usable open space).

This requirement presents a cost and site configuration constraint for high-density residential projects seeking to develop in the Downtown infill context. Open spaces as defined, could represent a substantial cost requirement, and may substantially curtail the total achievable unit yield. This is a particular challenge for adaptive reuse projects, which already must accommodate constraints generated by the existing building footprint, the need to preserve historical features and facades, and other limitations that further impede the ability to identify appropriate and sufficient usable open space areas.

Unit Mix Requirements

The R-H-1.8 – High Density Residential and MX – Mixed Use zoning districts include a stipulation regarding the percentage of units with 3 and 4 bedrooms. The apparent intention of this requirement is the provision of units for larger families or housing more than one family per unit. For residential development in the R-H-1.8 – High Density Residential zoning district, and residential development without a mixed use component in the MX – Mixed Use zoning district, the code requires that at least 20 percent of units be 3 or more bedrooms and that at least 10 percent of units be 4 or more bedrooms. In the C – Commercial zoning districts, the bedroom limitation is enforced for 100-percent residential developments, but waived for mixed use developments.

While appropriate for multifamily rental products targeting lower income households, this policy may be counter-productive with regards to efforts to attract entry level homebuyers with smaller “affordable-by-design” units and empty nesters seeking to downsize.

Parking Requirements

Parking requirements are outlined in Table 37.50.100 of the zoning code. Multifamily housing must provide 1.0 parking spaces for a studio, 1.5 spaces for a 1-bedroom unit, 2.0 spaces for a 2- to 3-bedroom unit, and 4.0 spaces for 4 or more bedrooms. Condominiums must provide 2.0 spaces for up to 4 bedrooms and 3.0 spaces for 5 or more bedrooms. The parking requirement in the MX – Mixed Use zoning district with CC – Central City overlay is provided for “mixed use buildings” with a requirement of 1.0 spaces for up to 2 bedrooms; for more than 2 bedrooms, the multifamily and condominium requirements above come into effect. Notably, adaptive reuse projects are not required to provide additional onsite parking.

Considering the size and configuration of Downtown development opportunities, most parking will be required in a structured parking format, which can add substantial development costs. Structured parking is routinely a barrier to development within the infill context, and often requires a coordinated public/private parking strategy to overcome development feasibility limitations. In many cases, emerging tax increment mechanisms, such as the Enhanced Infrastructure Financing District (EIFD) can provide a means by which the City may leverage tax increment from newly created assessed value to help fund related parking obligations, providing the City can do this while providing critical public services such as public safety. This is expected

to be a key topic in developer negotiations as public-private approaches to achieving a feasible infill housing program are considered in further detail.

Development Impact Fees

The City charges development impact fees to mitigate new development's impact on various infrastructure systems owned and maintained by the City. Development impact fees are a typical approach to fund infrastructure upgrades needed to accommodate new development, but do represent an additional cost for new development. City controlled development impact fees include the following programs:

- Sanitary Sewer Trunk Line Fee
- Storm Sewer Trunk Line Fee
- Traffic Fee
- Park Fee
- Fire Impact Fee
- Police Impact Fee
- Library Impact Fee
- Recreation Impact Fee

City controlled development impact fees result in costs ranging from approximately \$7,600 per multifamily dwelling unit to roughly \$10,500 per unit for townhouse development, as shown in **Table 4-1** in **Chapter 4**. Total fee burdens within the City of Salinas are not extraordinary relative to other areas of the region, but if desired, the City has the ability to reevaluate service level standards and/or identify other sources of funding to effect the needed infrastructure upgrades.

Stormwater Permitting

Comments from the local development community indicate that stormwater regulations pose a significant constraint to redevelopment of the Downtown. According to the California EPA's Central Coast Regional Water Quality Control Board, the Salinas River watershed is impaired with various pollutants, nutrients, nitrate, ammonia, E. coli, fecal coliform, pesticides, and sediment toxicity, among others. Urban development in the Salinas River watershed has a significant on the concentration of pollutants that are introduced to the watershed through the separated sewer system covering the area.

The Central Coast Water Board has found that there is a reasonable potential that municipal stormwater discharges cause, or may cause or contribute to, pollutants above water quality standards. Therefore, the City of Salinas Municipal Stormwater Discharges must meet strict waste discharge requirements under the National Pollutant Discharge Elimination System (NPDES). The NPDES permitting requires the City to develop and implement an effective Stormwater Management Plan that demonstrates how the City will comply with the NPDES.¹² The City's Stormwater Development Standards (SWDS) provides the guidance to ensure all projects meet the requirements of the NPDES. All development project applications in the City

¹² Central Coast Water Board's Fact Sheet/Rationale Technical Report for Waste Discharge Requirements for the City of Salinas Municipal Storm Water Discharges, 2012.

must arrange a pre-application meeting with the City's Permit and Inspection Services Division prior to submitting formal applications for permits to obtain a preliminary project review. The amount of stormwater design requirements that would apply to a proposed project would be subject to the Threshold Determination Process, as detailed in the City's SWDS. While these requirements may negatively impact development costs for those projects generating increased stormwater runoff, the City's SWDS responds to requirements of the NPDES permitting process, and the City is limited in its ability to effect policy changes to reduce costs.

Implications for Development Feasibility

To understand the implications of these regulatory constraints on the feasibility of Downtown development, the subsequent chapter offers a detailed analysis of development feasibility, with a primary focus on quantifying the costs associated with the City-controlled policies identified above, and resulting implications for the viability of vertical development.

4. DEVELOPMENT FEASIBILITY EVALUATION

This chapter evaluates the economic feasibility of development of various housing prototypes identified as target infill housing products in Downtown Salinas. Focusing specifically on the feasibility of residential-only¹³ development under the provisions of the City's Mixed Use zoning regulations in the Central City Overlay District,¹⁴ this analysis seeks to understand the baseline economic feasibility circumstances, as well as the effect of specific policy adjustments, as outlined in **Chapter 3**.

Evaluating the economic feasibility of adaptive reuse projects presents a unique challenge because adaptive reuse projects do not conform to specific project prototypes and will span a range of project sizes, configuration, product type, and myriad other characteristics. Project costs will also vary widely, depending on state of the existing structure and associated rehabilitation requirements, the presence of toxic materials needing remediation, and many other factors that can result in wide variance in terms of adaptive reuse costs.

This analysis therefore focuses primarily on new development projects, first evaluating the development feasibility of each recommended development prototype under the provisions currently outlined in the City's municipal code (Base Case). The Base Case analysis is then evaluated against development scenarios identifying specific adjustments to City policy requirements to understand how policy changes might improve the viability of infill housing prototypes. This analysis then also informs a discussion of adaptive reuse project economics presented at the end of this chapter.

Development Feasibility Analysis Findings

Implications of City Policy and Regulatory Constraints

For each development prototype evaluated, the Base Case development assumptions are reflective of the development provisions of the City's Mixed Use zoning regulations in the Central City Overlay District.¹⁵ Key policies influencing Downtown development feasibility include the items listed below and detailed further in the subsequent discussion:

- Parking Requirements
- Usable Open Space Requirement
- Development Impact Fees

¹³ This analysis includes residential only development because interviews with developers in Salinas indicate that Downtown Salinas has abundant commercial retail space. Early focus and investment should be on residential development until there is increased demand for added retail.

¹⁴ Analysis is based on the assumption all catalyst sites from the Salinas Downtown Vibrancy Plan would be rezoned from Public/Semi-Public to Mixed Use before development.

¹⁵ Salinas Municipal Code Chapter 37.

Parking Requirements

As outlined in the City's municipal code, multifamily housing must provide 1.0 parking space for a studio, 1.5 spaces for a 1-bedroom unit, 2.0 spaces for a 2- to 3-bedroom unit, and 4.0 spaces for 4 or more bedrooms. Comprising approximately 350 square feet and costing between \$15,000 and \$25,000 per structured parking space, high parking requirements can impede project feasibility substantially. Jurisdictions across the State of California acknowledge that parking is a limitation on development feasibility and space efficiency. In response, many jurisdictions have reduced parking requirements significantly—especially in downtowns and transit villages—to encourage and incentivize infill development. Eliminating or reducing parking requirements for catalyst development sites can help a developer's bottom line, thus improving the feasibility of downtown residential development.

Kimley-Horn recently completed a "Supplemental Parking Analysis to the Housing Target Market Analysis" (Downtown Parking Strategy) that recommends reducing parking requirements to 1 space per unit and implementing an in-lieu payment for parking that residential projects may choose to pay instead of providing all required parking onsite. These and other recommendations from the Parking Study should be considered as part of an overall incentive program for Downtown residential development.

Usable Open Space Requirement

The City requires the provision of usable open space for high-density residential uses. These spaces are meant to be an accessible portion of a lot, including decks, swimming pools, balconies, and the like, which is landscaped in addition to being developed for recreational uses or outdoor activities. Under the City's general requirement of 500 square feet of dedicated usable open space per unit, a significant portion of the project must be dedicated to such use.

This analysis is based on the assumption that usable open space construction costs are approximately half of the residential building construction costs.¹⁶ Though usable open space does not require the enclosed shells with the same finishing as residential construction, based on the City's code, usable open space does need to be landscaped in addition to being developed for recreational uses or outdoor activities.

Development Impact Fees

Development impact fees affect the overall infrastructure cost burden of a development project. Cities and counties may require the provision of development impact fees on new development projects to support the construction of certain capital improvement facilities needed to support new development. Infrastructure cost burden constraints from development impact fees are relatively low in Salinas, ranging from 5 – 13 percent of finished real estate values, as shown in **Table 4-1**. While these costs fall well within typical ranges generally considered feasible, infill development and its attendant challenges may merit reconsideration of infrastructure funding

¹⁶ This analysis is based on the assumptions building construction costs are \$165 per square foot, based on interviews with developers of similar product types, and usable open space construction costs are \$85 per square foot, assuming roughly 50 percent of livable square feet cost. This cost may vary based on the form of the usable open space provided.

Table 4-1
Salinas Housing Target Market Analyses
Single-Family and Multifamily Residential Infrastructure Burden Calculation

Item	Attached Townhouse/ Rowhouse- Base Case (RD-30)	Condo/ Stacked Flat- Base Case (RD-60)	Renter- Occupied Apartment- Base Case (RD-60)
Assumptions			
Unit Square Footage	1,210	1,128	1,000
Density (DU/Acre)	30.0	60.0	60.0
No. of Bedrooms	2	2	1
Valuation per Unit	\$165,000	\$128,000	\$166,000
Processing Fees per Unit [1]			
	-----Per Unit-----		
Building Permit	\$2,714	\$842	\$1,091
Plan Check	\$2,442	\$757	\$982
Fire Review	\$262	\$4	\$4
Seismic/Strong Motion	\$21	\$17	\$22
California Building Standards Commission Fee	\$7	\$5	\$7
Record Retention - Large Copies	\$75	\$4	\$4
Building Standards SRF	\$7	\$10	\$13
General Plan Zoning Maintenance	\$825	\$167	\$167
Formula	\$554	\$313	\$406
Record Retention - Small	\$500	\$8	\$8
Planning Review Fee	\$127	\$4	\$4
Subtotal Processing Fees per Unit	\$7,534	\$2,131	\$2,708
City Development Impact Fees per Unit			
Sanitary Sewer Trunk Line Fee	\$990	\$990	\$495
Storm Sewer Trunk Line Fee	\$1,060	\$1,060	\$530
Traffic Fee	\$3,039	\$2,136	\$2,136
Park Fee	\$1,818	\$1,818	\$909
Fire Impact Fee	\$287	\$279	\$279
Police Impact Fee	\$1,576	\$1,576	\$1,576
Library Impact Fee	\$1,123	\$1,123	\$1,123
Recreation Impact Fee	\$623	\$623	\$623
Subtotal City Fees per Unit	\$10,517	\$9,605	\$7,671
Other Agency Development Impact Fees per Unit			
TAMC Regional Development Impact Fee	\$2,817	\$1,978	\$1,978
MRWPCA (Regional Sewer)	\$3,506	\$3,506	\$3,506
Water (Cal Water) [2]	\$7,000	\$1,250	\$1,250
School Impact Fee	\$5,130	\$4,783	\$4,240
Subtotal Other Agency Fees per Unit	\$18,453	\$11,516	\$10,974
Total per Unit	\$36,504	\$23,253	\$21,353
Per Square Foot	\$30.17	\$20.61	\$21.35
Fee Burden Feasibility [3]			
Home Sales Price/Capitalized Value (Low) [4]	\$300,000	\$300,000	\$155,000
As a % of Home Sales Price	12.2%	7.8%	13.8%
Home Sales Price/Capitalized Value (Middle) [5]	\$387,500	\$387,500	\$210,000
As a % of Home Sales Price	9.4%	6.0%	10.2%
Home Sales Price/Capitalized Value (High) [6]	\$500,000	\$500,000	\$265,000
As a % of Home Sales Price	7.3%	4.7%	8.1%

"fee_burden"

Source: City of Salinas; various agencies; EPS.

[1] Processing fees exclude mechanical, electrical, plumbing, and other similar review fees.

[2] Fees shown are a placeholder. Placeholder fees are estimated based on EPS's experience with water connection fees for similar prototypes.

[3] In general, for each land use, if the total cost burden per dwelling unit is less than or between 15 and 20 percent of the finished home price, then a project is considered to be feasible.

[4] Renter-occupied apartment: Average asking rent of \$1,600 per unit.

[5] Renter-occupied apartment: Average asking rent of \$2,000 per unit

[6] Renter-occupied apartment: Average asking rent of \$2,400 per unit.

strategies as one approach to reducing development costs. To the extent that existing infrastructure funding mechanisms are unable to finance improvements and related maintenance costs, the City may consider a variety of Downtown-specific financing mechanisms that may include the following options: special assessments and taxes (e.g., Mello-Roos Community Facilities Districts), Tax Increment Financing, Statewide Community Infrastructure Program, and other funding sources (i.e., the State of California or AMBAG).

Feasibility Overview: Opportunities and Challenges

This analysis demonstrates the financial impacts of the City's policy provisions for market-rate residential development for Mixed Use Central City Overlay District.¹⁷ Three prototypes were selected for feasibility testing in the form of static pro forma analysis:

1. Multifamily Rental Apartment Project
2. Owner-Occupied Condominium/Stacked Flat Product
3. Owner-Occupied Attached Townhome Project

Static pro formas are useful as initial indicators of feasibility, helping to identify broad areas of potential. Effectively, the methodology involves estimating asset value, from which project expenses such as land payment and construction cost are deducted, to evaluate probable levels of return. It is important to note that this analysis is based on prototype projects and industry standard assumptions regarding vertical development costs, financing and soft and other costs as well as market specific revenue estimates. Actual project economics will vary from project to project – the intent of this analysis is to offer a broad outline of development feasibility and magnitude of changes that can be expected from specific cost and regulatory adjustments.

For purposes of this analysis, a minimum feasibility threshold of 8 percent profit, expressed as a percentage of total project costs, is used as a basic indicator. A project able to achieve this level of return typically would be capable of generating an internal rate of return in double digits, based on successful application of project financing to defray upfront costs. It could be argued that development risks would require even higher returns; however, the City's expressed level of commitment to P3 concepts, including significant policy adjustments, mitigates risk to a great degree.

Key Feasibility Analysis Assumptions and Variables

The feasibility of infill residential development relies on various highly sensitive assumptions. Factors that affect the feasibility of the prototypes in this analysis are listed below:¹⁸

¹⁷ This analysis includes only market-rate development prototypes based on the City's desire to understand and address barriers to attracting capital and investment needed to provide market-rate housing in Downtown Salinas. Past projects in Downtown have been incentivized affordable projects.

¹⁸ Other important notes regarding feasibility include the finding that eliminating unit mix requirements could result in higher unit yields (this analysis is based on assumed maximum densities). In addition, "usable open space" needs to be refined as a concept with further evaluation or related development costs.

- Construction costs
- Site work costs
- Land value
- Sales price
- Capitalization rates
- Development impact fees

Construction and Site Work Costs

Highly increasing construction, site work, and labor costs since the Great Recession have contributed to stagnant development activity in Salinas and surrounding communities. Contracting and other building industry firms have sought out high-wage projects in the Bay Area and Silicon Valley, limiting skilled laborers willing to take the financial risk of initiating projects in satellite communities. This is exacerbated by the fact that profits in Salinas and similar communities are far lower than in the neighboring Monterey Coast, Bay Area, and Silicon Valley as Salinas Valley land values are lower. While not analyzed here, it should be noted that prevailing wages apply to affordable housing developments that benefit from certain affordable housing funds, which can directly increase development costs.

Land Value

Land value is estimated at \$12 per square foot, or approximately \$522,700 per acre, based on a November 2016 appraisal of commercial properties near Downtown Salinas.

Sales Price

Median home sales prices in Salinas have increased significantly in the past several years. Since 2011, year-to-year average home sales prices have increased 14 percent annually and have increased a total of 94 percent.¹⁹ Housing industry researchers project housing prices to continue to increase. This benefits near-term housing construction in Salinas, as sales prices per square foot are able to support the economics of new home building in Downtown Salinas.

If achievable at affordable costs, new home construction can open the opportunity for more families to qualify to purchase a home. As mentioned in **Chapter 2**, households that pay rental prices exceeding \$2,000 per unit may realize the opportunity to purchase a home starting around \$275,000, given the ability to secure adequate funds for a down payment, or meet certain qualifications to purchase a home with little or no down payment.

Capitalization Rates

Capitalization rates reflect the net operating income divided by the current market value of a property. They indicate the rate of return on a real estate investment property based on the income the property is expected to generate.²⁰ A lower "cap rate" indicates that a buyer is willing to pay a relatively high amount for a modest income stream, with expectations that market conditions are certain and likely to continue improving. A high cap rate can be indicative

¹⁹ Based on annual average home sales prices in Salinas from 2011 (\$218,017) to 2016 (\$422,929) as provided by Zillow.com and Redfin.com research.

²⁰ As used in this analysis, the cap rate established the overall built asset value, from which development costs are deducted to determine overall development returns.

of less certainty regarding market conditions and can indicate a buyer requires a solid return from existing cash flows because of modest expectations regarding income growth in addition to other concerns. As such, cap rates will tend to be lower in cases of a proven market with a strong track record, such as multifamily residential and higher for more expensive and risky projects such as hotels. Cap rate assumptions are tracked at the regional level by several sources and usually are viewed in the context of larger regions tracked by various brokerages and other research entities. The cap rate is a very powerful variable in that relatively small fluctuations can have significant impacts on asset value. For this study, cap rate assumptions are drawn from CoStar and generally reflect the overall strong housing metrics observed in the region.

In Salinas, fundamental relations between operating income and asset values appear to be in place as built assets are bought and sold. However, this strength has not translated to significant new multifamily product development in Salinas because of the inherent risk profile. Therefore, in this financial analysis, it is anticipated that a development return of at least 8 percent (expressed as a percentage of overall project cost) is needed to induce investors. Once the project makes it through the development process, the resulting built product will benefit from a strong Salinas/Northern California housing market backdrop. In other words, strong underlying market fundamentals can work to Salinas's advantage if and only if substantial front-end development-related risks can be overcome.

Development Impact Fees

Significant proportions of facilities served by development impact fees enacted by the City appear to support the construction of facilities in new growth areas outside Downtown Salinas. While this may be appropriate as a general concept, it also may be necessary to further reduce the cost burden on development projects in Downtown Salinas, and the City may discount or credit fees pertaining to development projects in Downtown Salinas areas as part of an initial catalyst pilot program to "prove-up" the Downtown market.

Effect of Policy Adjustments on Feasibility Outcomes

Tables 4-2 through 4-4 present summaries of renter-occupied apartments at 60 units per acre, owner-occupied stacked flats built at the same density, and owner-occupied townhouses/rowhouses developed at 30 units per acre. The following overview provides key findings and implications for further consideration for each of these product types. Please consult **Appendix C** for detailed versions of the pro formas and **Appendix B** for detail behind changes to the unit mix made for purposes of the sensitivity analysis.

For each product type, two results are presented. On the left column of each of the above-referenced tables a baseline result is provided, assuming current policies of the City. On the right side, revised results account for several policy adjustments made to test overall impact of feasibility. These include removal of parking (assumed off-site solution), reduced usable open space, and a reduction to impact fee requirements (reduces City-controlled fees by 50 percent). It should be noted that this collection of policy adjustments, at this stage, is applied in "lump sum" as a general indicator of potential impact. Going forward it may be advantageous to disaggregate or group these adjustments, as each has important implications for City roles and responsibilities. It also should be noted that parking strategies will be expanded on in future versions of this report based on integration of ongoing work under separate contract.

Table 4-2
Salinas Housing Target Market Analyses
Base Case and Adjustments Feasibility Summary
Renter-Occupied Apartment (RD-60)

Renter-Occupied Apartment (RD-60)
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Item	Base Case	Policy Adjustments
Description	Development assumptions for a Mixed Use residential only project within the Central City Overlay District.	Exempts parking and unit size requirements. Includes reduced usable open space and reduced impact fees.
Development Assumptions		
Site Area (Acre)	1.0	1.0
FAR	2.24	1.55
Gross Building Sq. Ft.	97,518	67,726
Leasable Residential Sq. Ft.	60,800	53,300
Usable Open Space Sq. Ft.	30,000	5,000
Average Unit Size	1,000	875
Parking Spaces	111	0
Market-Rate Units	60	60
Revenue Assumptions		
Avg. Market-Rate Monthly Asking Rent per Unit	\$2,150	\$1,970
Total Capitalized Value	\$18,300,160	\$15,967,558
Costs		
Land Costs [1]	\$522,720	\$522,720
Gross Site, Building and Usable Open Space Costs	\$14,126,070	\$11,210,456
Total Indirect Costs	\$5,570,752	\$3,974,545
Total Financing Costs	\$544,125	\$419,486
Total Parking Costs	\$1,665,000	\$0
Total Costs	\$22,428,666	\$16,127,206
Total Net Revenue/Deficit	(\$4,128,506)	(\$159,649)
<i>Per Unit</i>	(\$68,808)	(\$2,661)
<i>% of Total Costs</i>	(18.4%)	(1.0%)
Average Monthly Asking Rent Needed to Achieve 8 Percent Developer Return		
Avg. Market-Rate Monthly Asking Rent per Unit	-	\$2,110
Per Square Foot	-	\$2.41
Difference per Unit		
<i>Amount</i>	-	\$140
<i>Percent</i>	-	7.1%

"rent_sum"

Source: EPS.

[1] Land cost assumed to be \$12 per square foot, based on a Stephen Brown Associates, Inc. appraisal for the sale of industrial property in 2016.

Table 4-3
Salinas Housing Target Market Analyses
Base Case and Adjustments Feasibility Summary
Owner-Occupied Condo/Stacked Flat (RD-60)

Owner-Occupied
Condo/Stacked Flat
(RD-60)

Item	Base Case	Policy Adjustments
Description	Development assumptions for a Mixed Use residential only project within the Central City Overlay District.	Exempts parking and unit size requirements. Includes reduced usable open space and reduced impact fees.
Development Assumptions		
Site Area (Acre)	1.0	1.0
FAR	2.42	1.86
Gross Building Sq. Ft.	105,198	81,230
Saleable Residential Sq. Ft.	67,680	64,800
Usable Open Space Sq. Ft.	30,000	5,000
Average Unit Size	1,128	1,080
Parking Spaces	120	0
Market-Rate Units	60	60
Revenue Assumptions		
Avg. Market-Rate Sales Price per Unit	\$372,240	\$367,200
Net Sales Revenue	\$23,142,251	\$20,930,400
Costs		
Land Costs [1]	\$522,720	\$522,720
Gross Site, Building and Usable Open Space Costs	\$15,393,209	\$13,438,550
Total Indirect Costs	\$5,441,074	\$4,612,532
Total Financing Costs	\$575,547	\$498,661
Total Parking Costs	\$1,800,000	\$0
Total Costs	\$23,732,550	\$19,072,463
Total Net Revenue/Deficit	(\$590,298)	\$1,857,937
<i>Per Unit</i>	<i>(\$9,838)</i>	<i>\$30,966</i>
<i>% of Total Costs</i>	<i>(2.5%)</i>	<i>9.7%</i>

"condo_sum"

Source: EPS.

[1] Land cost assumed to be \$12 per square foot, based on a Stephen Brown Associates, Inc. appraisal for the sale of industrial property in 2016.

Table 4-4
Salinas Housing Target Market Analyses
Base Case and Adjustments Feasibility Summary
Owner-Occupied Attached Townhome/Rowhouse

Item	Base Case	Policy Adjustments
Description	Development assumptions for a Mixed Use residential only project within the Central City Overlay District.	Exempts unit size requirements. Includes reduced impact fees and 1 car only garage.
Development Assumptions		
Site Area (Acre)	1.0	1.0
Market-Rate Units	30	30
Avg. Market-Rate Living Area Square Footage	1,210	1,080
Avg. Market-Rate Garage Square Footage	400	280
Revenue Assumptions		
Avg. Market-Rate Sales Price per Unit	\$332,750	\$324,000
Net Sales Revenue	\$9,483,375	\$9,234,000
Costs		
Land Costs [1]	\$522,720	\$522,720
Gross Site, Living Area and Garage Building Costs	\$5,503,800	\$4,864,080
Total Indirect Costs	\$2,838,132	\$2,475,475
Total Financing Costs	\$230,446	\$202,755
Total Costs	\$9,095,098	\$8,065,030
Total Net Revenue/Deficit	\$388,277	\$1,168,970
<i>Per Unit</i>	\$12,943	\$38,966
<i>% of Total Costs</i>	4.3%	14.5%

"townhome_sum"

Source: EPS.

[1] Land cost assumed to be \$12 per square foot, based on a Stephen Brown Associates, Inc. appraisal for the sale of industrial property in 2016.

A static pro forma effectively represents a snapshot in time, reflecting today's conditions. As evaluated in the preceding market discussion, rents and asset values have climbed steeply in Salinas in recent years. Therefore, the required percentage change in lease rates or asset values needed to attain minimum feasibility after policy adjustments have been made is presented at the bottom of each table. Results for each of the prototypes²¹ are as follows:

- **Renter-Occupied Apartment (RD-60):** This product is fundamental to realizing the vision of the Vibrancy Plan and addressing the City's worsening housing shortage. Current conditions indicate that with the enactment of all referenced policy adjustments, all other things remaining equal, lease rates will need to increase about 7.1 percent²² from an average of \$1,970/month to \$2,110/month for units averaging just under 900 square feet to meet minimum investor thresholds. However, lease rates have increased sharply in recent years and, as such, it is very possible that this product type will become feasible within the next 5 years, business cycles and other economic shocks notwithstanding.
- **Owner-Occupied Condo/Stacked Flat (RD-60):** It is anticipated that this will emerge as a very important product, appealing to multiple demographic groups, including equity-laden boomers interested in Downtown ownership opportunities not involving stairs. Current conditions indicate that all referenced policy adjustments may be necessary to demonstrate market feasibility for this product, as priced in the mid to upper \$300,000 range. This product also may be viable within a 5 year time frame as an adjunct to the more viable townhome product discussed below.
- **Owner-Occupied Attached Townhouse/Rowhouse (RD-30):** As discussed earlier, this product is demonstrating great success in small and large downtown settings, offering an attractive and livable product at impressive densities to a broad swath of buyers in a compelling price point range of \$300,000 to \$330,000 for units averaging just over 1,200 square feet (not including a garage). As is the case in these settings, this product type is out-performing market-rate apartments and other products in many cases. Based on preliminary analysis, it is highly likely this product type is feasible in today's market, perhaps requiring limited policy adjustments. Among these various potential adjustments, it is recommended that parking not be reduced unless absolutely necessary to encourage buyer acceptance.

Adaptive Reuse Project Economics

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.

²¹ All prototypes are modeled as residential only.

²² Reflects real appreciation of rents over and above cost escalation.

Table 4-5 derives an estimated project budget for an example adaptive reuse project based on market calibrated revenue estimates and asset value (lease and vacancy rates, operating and other expenses, and capitalization rates). Based on this analysis of achievable revenue and incorporation of an assumed developer profit margin of 8 percent, **Table 4-5** estimates that a “typical” adaptive reuse project can accommodate all-in development costs approaching \$320 per square foot. This budget must be sufficient to fund site acquisition, demolition, restoration and new construction, design, engineering, entitlement, financing and all other costs associated with the project. Measures to reduce costs associated with regulatory burdens, namely change in use requirements necessitating a substantial allocation of usable open space and project approval processes that allow for fewer rounds of design and review, would provide valuable cushion for an adaptive reuse project budget. Moreover, opportunities to maximize revenue potential through increased allowable densities could improve an adaptive reuse project’s ability to achieve economies of scale.

Micro-units may be a viable option for adaptive reuse projects in Downtown. Generally being smaller than 350 square feet, micro-units add density (dwelling units per acre) without having a significant impact on allowable building massing. Micro-units are becoming popular solutions to address housing shortages in cities such as Boston, Denver, Los Angeles, Seattle, and New York City, although market acceptance in Salinas remains uncertain.²³ Suitable for single occupants or couples, micro-units should be considered as a piece of a broader housing strategy that provides a mix of options to address the housing needs of families and multi-generational households. City zoning and building regulatory changes would be needed to accomplish such projects. Updates to the City’s municipal code would need to allow a greater number of units that can be configured in existing building envelopes for this product type to be possible in Salinas.

Implications for Development Strategy

In every case, the City should require candidate developers interested in negotiating with the City to demonstrate the need for offsetting policy adjustments or gap financing through refined pro forma analysis building on that contained in this analysis. Adaptive reuse projects should be considered on a case by case basis based on specific project characteristics. With respect to new development, at this time, available evidence points to the near-term realization of townhome development on Lot 3 and Lot 12. Focus on this product type at this location allows time for the City and any development partner(s) to overcome easements and other limitations pertaining to other sites, allowing consideration of other prototypes on those candidate catalyst sites in the future as the market matures over the next 5 years. On a separate track, the City may want to pursue one or more affordable housing projects at the ITC, Lots GG or 17/NN (these lots are longer term prospects), with one or more of its trusted affordable housing partners. These projects appear viable and competitive for tax credit financing and can move ahead at this time.

²³ Valhouli, Constantine. “Could Micro-Apartments Solve the Affordable Housing Crisis?” *Los Angeles Times*. October 24, 2016. Web. Accessed May 10, 2017.

**Table 4-5
Salinas Housing Target Market Analyses
Adaptive Reuse Project Budget**

Item	Amount	
Development Assumptions		
Units	4	
Unit Sq. Ft.	900	
Total Living Sq. Ft.	3,600	
Living Sq. Ft. as a % of Total	85%	
Total Building Sq. Ft.	4,235	
Revenue Assumptions		
	<u>per unit</u>	<u>total</u>
Monthly Asking Rent per Sq. Ft.	\$2.50	\$2.50
Total Monthly Rent	\$2,250	\$9,000
Total Annual Base Rental Revenue	\$27,000	\$108,000
Less Operating Expenses (20% of Gross Income)	(\$5,400)	(\$21,600)
Less Vacancy (5% of Gross Income)	(\$1,350)	(\$5,400)
Less Share of Real Estate Taxes (1.1% of Capped Value)	(\$4,031)	(\$16,123)
Subtotal Annual Revenue	\$16,219	\$64,877
Capitalized Value (5.25% Cap Rate)	\$308,939	\$1,235,755
Developer Profit (8% of Capitalized Value)	\$24,715	\$98,860
Demolition, Construction, and Finance Budget	\$284,224	\$1,136,895
<i>Per Sq. Ft.</i>	<i>\$316</i>	<i>\$268</i>

reuse budget

Source: EPS.

CEQA Implications

The City of Salinas General Plan Final Environmental Impact Report (EIR) addresses the potential impacts of development in the city largely based on the land use and circulation vision included in the General Plan. The Land Use and Circulation Policy Map of the General Plan shows land use designations for all land within the downtown area, including the 10 opportunity sites discussed in this report. Nine of the opportunity sites are used as privately or City-owned parking lots and each is designated Public/Semi-Public. The land use designations for the tenth, Lot 1 (Public/Semi-Public) and the Greyhound Station (Mixed-Use), correspond to the existing uses on that lot. The zoning regulations that apply to each opportunity site are consistent with their respective land use designations.

Opportunity sites designated Public/Semi-Public have no development potential that would further the City's downtown housing goals. A General Plan amendment and rezoning would be required for any of these sites to enable their development with uses such as housing, commercial, or mixed use. As reflected in **Table 3-3**, Downtown Vibrancy Catalyst Sites Development Capacity, rezoning of sites to Mixed Use (MX) is contemplated as a means to maximize housing development capacity for each site (see **Table 3-3**, footnote 3). Because zoning must be consistent with the General Plan land use designation, it is assumed that General Plan amendments to change existing designations to Mixed Use would be needed.

Any General Plan land use designation change and/or rezoning action for any of the opportunities sites which results in increased development capacity potential would typically trigger CEQA review. At a minimum, an initial study would be needed to determine the type of CEQA documentation required. Where potentially significant impacts can be mitigated to less than significant through implementation of mitigation measures or conditions of approval, a mitigated negative declaration may be the appropriate CEQA document. Where one or more impacts are likely to be significant and unavoidable, an EIR may be required. Traffic and circulation, water supply, climate change, air quality, prehistoric resources, and historic resources would be key sources of potentially significant impacts for downtown development, though others are possible.

The combined impact of substantially increasing development capacity across all opportunity sites in downtown is likely to trigger an EIR. A "program" EIR would likely be the appropriate CEQA document. The "program" consists of a series of actions (General Plan amendments and rezoning of all the sites) that are geographically associated (in downtown). This approach would have potential CEQA streamlining benefits for future individual projects that may be proposed on any one of the opportunity sites. Provided individual projects that are consistent with the General Plan land use and densities evaluated in the CEQA documentation for the "broader" project, it is possible that no further CEQA review for individual projects would be required. Individual projects that may not be consistent with the General Plan land uses and development densities may need to be evaluated in an initial study. The results of the initial study would be used to determine whether a mitigated negative declaration or EIR for the individual project would be required.

The CEQA context described above does not address environmental implications of any incentive programs the City may consider in the future to help catalyze downtown housing development. Any such program would need to be investigated at the time it is proposed. If there may be a CEQA implication to one or more of the programs, and they pertain solely to promoting housing

development in downtown, the programs could be included in the project description for the program EIR and analyzed therein for their effects.

5. *DOWNTOWN SALINAS HOUSING IMPLEMENTATION STRATEGY*

This chapter sets forth an implementation strategy for downtown Salinas housing development. Salinas has an opportunity to move forward with a viable infill housing pilot effort, demonstrating to locals and the outside world alike that strategic approaches to creating a variety of housing opportunities can support a meaningful increment of new housing growth and investment that will materially improve the vitality and function of the Downtown district. The City has the market demand and appropriate development sites to accommodate such growth, which can be facilitated via a deliberate sequence of actions, as outlined in this chapter.

This section outlines a recommended housing pilot program consisting of short term policy changes and actions setting the stage for public-private partnership (P3) strategies designed to attract investor interest in one or more specific opportunity sites. These short-, medium-, and long-term implementation strategies and steps are outlined below and summarized in **Table 5-1**.

Improve Development Context

Overarching issues associated with Salinas's real and perceived problems with crime, homelessness and other social ills must be addressed as part of any economic development and real estate investment strategy. To successfully attract private investment, it is imperative that real and perceived risk be reduced through meaningful public safety improvements and improved perceptions of downtown Salinas. The initiatives outlined below should be implemented immediately with ongoing review and calibration to ensure continued improvement attuned to longer term planning objectives.

Public Safety Improvement

The City should evaluate the ability to implement community policing concepts downtown. Past efforts in this regard in Chinatown and other areas have yielded positive results. In addition, active community/neighborhood watch programs organized through HOA's or other entities should be coordinated with business owners and new developers to ensure that undesirable activities are quickly reported and addressed. The City's commitment to such concepts, combined with ongoing and visible security efforts funded by the SCCIA, as well as data illustrating that the downtown crime rate is substantially below other portions of City, will be important steps toward differentiating the downtown development opportunity from other City districts in the developer outreach package described later in this chapter.

Downtown Branding and Public Outreach Strategy

In concert with tangible steps toward ensuring public safety throughout the Downtown, it will be critical to project positive messaging regarding these actions and the recent successes through a communications strategy ensuring the media is capturing intended messaging about improving safety and emerging development prospects. It is recommended that the City works with the SCCIA to augment the association's efforts and retain a communications consultant with experience in economic development and planning to develop a branding strategy for Downtown.

**Table 5-1
Salinas Housing Target Market Analyses
Summary of Implementation Recommendations**

Implementation Item	Description	IMMEDIATE AND ONGOING	SHORT TERM Year 0	MEDIUM TERM Year 1 - 3	LONG TERM Year 3+	COMPLETED
IMPROVE DOWNTOWN DEVELOPMENT CONTEXT						
1. Public Safety Strategy	Evaluate community based policing concepts, continue to coordinate with SCCIA to provide Downtown security, develop coordinated community/neighborhood watch programs as housing development proceeds.	x				
2. Branding Strategy	Engage consultant to develop positive messaging and communications strategy for Downtown.	x				
INFILL HOUSING POLICY REMEDIES						
1. Density						
a. Reevaluate mixed use density requirements.	Clarify density allowance for mixed use buildings by removing reference to unit size as basis for FAR allowance. Either increase DUAC allowance or permit development to a specified FAR regardless of unit size. (Footnote C on Table 37-40.30 of the Zoning Code).		x			
b. Increase Downtown allowable densities.	Over the longer term, and subject to outcomes of Infill Housing Pilot Program, increase Downtown allowable densities to at least 100 units per acre.				x	
2. Usable Open Space	Amend open space requirements to reduce overall requirement and to allow indoor recreational areas and other common activity areas to qualify (Zoning Code Table 37-40.30 and Section37-40.330.h).		x			
3. Unit Size Requirements	Eliminate or revise unit mix requirements stipulating that each project include a certain proportion of larger units.					x
4. 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.		x	x		
5. Adaptive Reuse Ordinance	Use adaptive reuse ordinance to permit maximum flexibility in terms of adaptive reuse projects - reducing or eliminating density, open space and other requirements for adaptive reuse.		x			
6. Application of California Historic Building Code	Initiate training of permitting and other City staff regarding application of California Historic Building Code provisions that may facilitate adaptive reuse projects.	x				
INFILL HOUSING INCENTIVES - PUBLIC FINANCING						
1. Consider Development Impact Fee Restructuring	Review development impact fee programs and consider development impact fee program restructuring and other incentives to reduce costs.		x			
2. Conduct EIFD/CRIA Feasibility Analysis.	Evaluate EIFD/CRIA funding potential, voter approval processes, formation requirements, and ongoing fiscal impacts associated with the diversion of property tax revenues.		x			
3. Consider Formation of Overlay Land Secured Financing District	Solicit input from Downtown property owners regarding support for land secured financing mechanisms (e.g., CFD) to fund infrastructure and services. Evaluate funding potential based on supportable scale (geography) and tax rates. Coordinate this effort with EIFD/CRIA feasibility analysis, as CFD may provide important source of gap and replacement funding if EIFD/CRIA is formed.		x			
4. SCIP Financing	Initiate participation in SCIP financing program to defray upfront cost of development impact fees for smaller, infill projects.		x			

**Table 5-1
Salinas Housing Target Market Analyses
Summary of Implementation Recommendations**

Implementation Item	Description	IMMEDIATE AND ONGOING	SHORT TERM Year 0	MEDIUM TERM Year 1 - 3	LONG TERM Year 3+	COMPLETED
IMPLEMENT PUBLIC-PRIVATE DEVELOPMENT STRATEGY						
1. Define City Organizational Approach	Establish P3 Program: <ul style="list-style-type: none"> - Assign staff lead/liaison - Confirm and refine priority list of development sites and prototypes - Establish criteria and guidelines for and form of City participation - Outreach to local property owners - Outreach to existing/potential commercial users - Refine pro forma and product type considerations via outreach to development community (define financing gap) - Identify potential funding partners 			x		
2. Developer Outreach and Selection	Conduct Request for Qualifications process to solicit interest in P3 development strategies. <ul style="list-style-type: none"> - Identify list of candidate developers - Identify priority sites and target development prototypes to include in RFQ - Consider and define incentive package to reduce risk profile - Refine internal development and disposition strategy - Enter into exclusive negotiations with selected developer - Negotiate key issues and establish public-private disposition and development strategy 			x		
STREAMLINE PROJECT APPROVAL PROCESS						
1. Develop Opportunity Site Development Regulations Guide	Identify specific policies, regulations, and incentive programs (e.g., fee waiver and deferral program) applying to opportunity site development. Identify needed regulatory approvals (e.g., rezone) and associated environmental analysis needed during entitlement process.		x			
2. Establish Staff Liaison	Establish staff liaison for Central City development, dedicated to facilitating development of both new and adaptive reuse projects in Downtown (and adjoining areas such as Chinatown).		x			
3. Revise Central City Overlay District	Build upon zoning code and other policy revisions through a comprehensive revision to the Central City Overlay District rezoning Opportunity Sites as part of City's General Plan Update. Ensure that rezoned opportunity sites and other potential development sites maintain flexibility to develop as vertical mixed-use or standalone residential. Comprehensive revision should also consider and develop supporting use strategy, public infrastructure review, and comprehensive infrastructure/facility analysis (including parking) and funding strategy.		x	x		
4. Comprehensive Zoning Code Overhaul	Conduct comprehensive zoning code overhaul as part of General Plan Update to streamline and clarify zoning policies and associated requirements.					x

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This strategy may take the form of a series of articles, web-based collateral materials, events, and other coordinated actions to project the opportunities for participating in the growth and diversification of a bona fide locally-oriented downtown district with numerous amenities in the midst of a regional employment center.

Implement Infill Housing Policy Remedies

At least initially, the City will need to relax restrictions and reduce complexity to facilitate investment among locals and non-locals alike. Developers and their investors will require substantial latitude to respond to evolving market forces. It is recommended that the City undertake the following policy adjustments to facilitate Downtown housing development. The City may choose to implement these policy adjustments across the board, or on a selective, “pilot program” basis. Recommended policy adjustments include the following items:

- **Density.** The density allowance for mixed use buildings should be reevaluated and clarified to permit development up to a specified FAR standard (currently 6.0) regardless of unit size. Footnote C on Table 37-40.30 of the zoning code should be refined to reflect this clarification. This clarification regarding density allowance for mixed-use projects will provide additional flexibility for emerging micro-unit concepts.

In addition, to improve flexibility and allow for increased density, the City may consider increasing Downtown allowable densities to at least 100 units per acre (100 units plus maximum 35 percent density bonus = 135 units per acre). This adjustment would permit projects of a larger scale to move forward on the smaller opportunity sites. EPS recommends that the City consider this policy adjustment over the longer term based on the market response to initial housing catalyst projects and negotiations with interested developers.

- **Usable Open Space.** The requirement for usable open space becomes progressively more difficult to achieve as the density increases and the available ground area become a smaller percentage of the total development area and presents a particular challenge for adaptive reuse projects. For higher density development the requirement for usable open space could be amended to allow for indoor recreational and other common activity area. Roof area also can be used for providing open space to the extent the roof area is not required for mechanical equipment (Zoning Code Table 37-40.30 and Section 37-40.330.h).
- **Unit Size Requirements.** The unit size requirement appears to be targeted at housing for families. Another area of demonstrated housing need is smaller and more affordable units. The requirement could be made more flexible by offering an optional requirement for studio and 1-bedroom units in place of the 3-bedroom and 4-bedroom units, or could be eliminated altogether for the CC—Central City overlay district, whichever is determined to be more appropriate for the catalyst sites.²⁴
- **Parking.** Reduce parking requirements to 1 space per unit consistent with the recommendations established in the Parking Study and clarify that the reduced parking

²⁴ Note that the City Council recently considered and approved eliminating the unit mix requirement for the Central City overlay.

requirements are applicable to standalone and mixed-use residential developments in the CC—Central City overlay district. Consider implementation of a parking in-lieu fee to reduce cost burden of parking construction, but ensure that the City maintains short and medium-term flexibility to waive or reduce the parking in lieu fee as needed to incentive catalyst housing projects. Successful demonstration projects will improve market strength and the viability of implementing a parking in lieu fee or other program to fund new and replacement parking.

- **Ground floor commercial uses.** Ensure that rezoned opportunity sites and other potential development sites maintain flexibility to develop as vertical mixed-use or standalone residential. While such requirements can provide very attractive and dynamic projects at compelling locations (e.g., strategic corners and adjacencies to major assets), developers should have the ability to pursue these uses without being required to do so. As a result, infill housing concepts will be less complex, and consumer demand may be directed to existing retailers (Zoning Code Section 37-40.330.c.2).
- **Adaptive Reuse Ordinance.** It is recommended that the policy adjustments under consideration for stand-alone new housing projects also be applied to conversions of existing second floor residential conversions, and that these efforts be expanded through implementation of an adaptive reuse ordinance targeted at maximizing flexibility for adaptive reuse projects.
- **Application of Historic Building Code.** City staff should be trained on the appropriate application of the State of California Historic Building Code and how this code can be applied to facilitate adaptive reuse projects.

Infill Housing Incentives—Public Financing

In addition to the specific zoning and regulatory changes recommended above, public financing approaches are available to reduce cost burdens or provide funding and financing sources to improve development economics. Prevailing candidates in this regard are specified below, with additional options available to the City detailed in **Table 5-1**. Each of these mechanisms requires further evaluation and study prior to implementation, but this section outlines those funding sources that the City should prioritize. Availability of these mechanisms as tools to incentivize catalyst housing projects and development to follow will be an important element of the P3 development strategy outlined in the section to follow, and as such, should be implemented prior to, or in concert with the P3 strategy.

- **Development Impact Fees.** Evaluation of City-controlled impact fee programs should include an assessment of facilities funded, associated service-level standards and potential adjustments thereof, prioritization of capital improvements with a focus on Downtown, and consideration of fee deferral programs to reduce Downtown development costs. To the extent possible and where supported by the appropriate nexus analysis, development impact fee programs should be restructured to reduce allocation of costs to Downtown, with particular consideration given to reduced vehicle trip rates anticipated in a more urban and transit-oriented development context.

EPS recommends that the City maintain and consider expanding existing fee deferral programs as part of the housing pilot program to incentivize catalyst housing projects. Fee deferral programs delaying payment of fees can substantially improve development economics, lowering upfront capital outlays and reducing financing costs.

Table 5-2 identifies a menu of potential funding options that the City may consider to supplement fee program revenues in support of CIP reductions, or as part of an overarching funding and economic incentive program. As the City develops the Infill Housing Pilot Program, the City should evaluate funding requirements associated with infrastructure, any fee reductions, parking, and other economic incentives as part of an overall funding strategy.

- **Conduct EIFD/CRIA Feasibility Analysis.** The City should evaluate the funding potential associated with emerging tax increment mechanisms, namely an Enhanced Infrastructure Financing District (EIFD) or Community Revitalization Investment Authority (CRIA). This evaluation should consider the varying formation and bond issuance requirements, potential tax increment revenue streams, bonding potential, and the City's ability to fund ongoing services. EPS recommends that the City first conduct a feasibility analysis before moving into formation of one of these districts – much of the analysis completed as part of a feasibility assessment can be leveraged for district formation, should the City determine adequate funding potential exists.
- **Consider Formation of Overlay Land Secured Financing District.** Land secured financing, typically a Community Facilities District (CFD) can be used to fund needed infrastructure improvements, with special taxes paid by property owners available to fund issuance of bonds. A CFD for services may also be formed to fund authorized City operational expenditures. The City should work with SCCIA to determine the level of property owner support for a land secured financing district and the potential scale of the district in terms of geography and supportable tax rates. Formation of a CFD over the Downtown (and possibly other areas) could allow property owners to opt in to leverage special taxes on their property to pay for needed infrastructure improvements or to provide funding for City services. This mechanism may also be layered with an EIFD or CRIA to provide replacement funding for City services and to accelerate the availability of bond proceeds. The viability of this mechanism will be dependent on sufficient scale of special taxes to support issuance of debt – when considering the cost of issuing bonds, special taxes on the order of \$500,000 annually are typically needed to generate bond proceeds approximating \$5 million - substantial enough to justify the cost of a bond issuance.

If taxing capacity is insufficient to support debt issuance, this evaluation should look at formation of a Citywide Public Financing Authority that would be able to pool special taxes from multiple districts to generate sufficient funds to support a single bond issuance.

- **SCIP Financing.** The City should participate in the Statewide Community Infrastructure Program (SCIP), which allows developers to finance development impact fees and other eligible public capital improvements via a special tax or assessment on the participating project. Pooled, tax-exempt bond financing is available for development projects located in jurisdictions that have elected to participate in the program. SCIP financing provides low

**Table 5-2
Salinas Housing Target Market Analyses
Local, State, Federal Government, and Private-Sector Funding Finance Options Detail**

Mechanism	Description	Implementation	Other Considerations
Enhanced Infrastructure Financing District (EIFD)	Local agencies can establish an Enhanced Infrastructure Financing District (EIFD) for a given project or geographic area of the jurisdiction. The EIFD captures incremental increases in property tax revenue from future development otherwise accruing to the county's General Fund that can be used for to finance public capital facilities or other specified projects of communitywide significance, including, but not limited to, brownfield restoration and other environmental mitigation; the development of projects on a former military base; the repayment of the transfer of funds to a military base reuse authority; the acquisition, construction, or rehabilitation of housing for persons of low and moderate income for rent or purchase; the acquisition, construction, or repair of industrial structures for private use; transit priority projects; and projects to implement a sustainable communities strategy.	<p>Requires approval by every local taxing entity that will contribute its property tax increment and also requires 55 percent voter approval to issue bonds (landowner vote if less than 12 registered voters in jurisdiction).</p> <p>Under current statute, debt issuance is limited to short term debt, and constrained by the timing of property tax increment growth. Local jurisdictions considering dual implementation of Mello-Roos CFD (below) to accelerate and expand debt issuance capability.</p> <p>Additionally, a city or county that created a Redevelopment Agency (RDA) is prohibited from creating an EIFD unless:</p> <ol style="list-style-type: none"> I. The Successor Agency of the former RDA (SARA) has received a finding of completion. II. The city or county certifies to the Department of Finance that no RDA assets subject to litigation have been or will be used to benefit an EIFD. III. The State Controller has completed a review of RDA asset transfers and the SARA and the city or county have complied with any review requirements. 	<p>Initial debt capacity may not match need for required upfront capital costs.</p> <p>EIFD boundaries should carefully consider and balance objectives of maximizing capture of value increases and limited timeframe for allowable debt issuance (30 years from EIFD formation).</p> <p>EIFD could be combined with other financing mechanisms (e.g., CFD) to generate up front funding sources.</p>
Community Revitalization and Investment Authorities (CRIA)	Allows a city, county, or a special district - or any combination of these via entering a joint powers agreement - to establish a CRIA to revitalize disadvantaged communities through planning and financing infrastructure improvements and upgrades; economic development activities; and affordable housing via tax increment financing based, in part, on the former community redevelopment law.	<p>The entities forming a CRIA must produce and adopt a CRIA Plan (Plan) that guides its revitalization programs and authorizes receipt and expenditure property tax increment revenues. The Plan must include:</p> <ul style="list-style-type: none"> - Statement of principal goals and objectives - Description of the deteriorated or inadequate infrastructure and program for repair and upgrade - Housing program - A program to remedy or remove the release of hazardous substances - A program to provide funding for or otherwise facilitate the economic revitalization of the area - A fiscal analysis setting forth projected receipt of revenues and expenses over five-year planning horizon - Time limits to establishing loans, advances and indebtedness and fulfilling all the authority's housing obligations. <p>The Plan must be adopted over a series of three public hearings. Proceedings to adopt the Plan must terminate if there is a majority protest (50 percent or higher) from the combined number of property owners and residents in the area. An election on whether to adopt the Plan must be called if between 25 to 50 percent of the combined number of property owners and residents file a protest.</p>	<p>25 percent of property tax increment revenues must be used to increase, improve, and preserve the community's supply of low and moderate income families.</p> <p>Additionally, A CRIA can be created in the following two locations:</p> <ol style="list-style-type: none"> 1. Areas where not less than 80 percent of the land contains census tracts or census block groups meet both of these conditions: (i) an annual median household income that is less than 80% of the statewide annual median income; and (ii) three of four following conditions: <ol style="list-style-type: none"> a. non-seasonal unemployment at least 3 percent higher than statewide average. b. crime rates at least 5 percent higher than statewide median. c. deteriorated or inadequate infrastructure, and d. deteriorated commercial or residential structures. 2. A former military base that is principally characterized by deteriorated or inadequate infrastructure or structures.

**Table 5-2
Salinas Housing Target Market Analyses
Local, State, Federal Government, and Private-Sector Funding Finance Options Detail**

Mechanism	Description	Implementation	Other Considerations
Statewide Community Infrastructure Program (SCIP)	<p>Provides a pooled tax-exempt bond-financing program for development-impact fees and costs of public infrastructure such as roads, water, sewer, storm drainage, and parks for commercial, industrial, retail, and multi- and single-family residential developments. SCIP is administered by the California Statewide Communities Development Authority (CSCDA) - a joint powers authority sponsored by the League of California Cities and the California State Association of Counties. Under the SCIP, CSCDA issues bonds secured by property assessments.</p> <p>If a property owner chooses to participate in the SCIP, the selected public infrastructure and development-impact fees owed to the municipality will be financed by CSCDA's issuance of tax-exempt bonds. To pay debt service on the bonds, CSCDA will impose a 30-year special assessment on the participating owner's property. The assessments will be added to the county property-tax bill, and the annual assessment installments are calculated to be sufficient to pay annual debt service along with the administrative costs of SCIP and the municipality's costs of collecting assessments on the tax roll.</p>	<p>The SCIP is available for development projects situated within cities or counties (Municipality) which have elected to become SCIP participants. A Municipality must be a member of the CSCDA and must adopt a resolution authorizing the Municipality to join the SCIP and for the CSCDA to accept applications from property owners within the Municipality to apply for tax-exempt financing through SCIP for public improvements and development impact fees.</p> <p>Once a Municipality has established said resolutions, property owners of property being developed within the Municipality may participate in the SCIP to allow the CSCDA to conduct assessment proceedings under the Municipal Improvement Act of 1913 and issue Local Obligations under the Improvement Bond Act of 1915 to finance fees levied on those properties and improvements, provided that the participating property owners voluntarily elect to participate and consent to the levy of the assessments.</p>	
Mello-Roos Community Facilities District (CFD)	<p>Allows local agencies to create assessment districts and raise funds through special property taxes. Provides financing for public capital investment and operating improvements within the district through tax-exempt bonds sponsored by a public agency.</p>	<p>Requires a 2/3rds approval in a resident (or land owner) vote to allow CFD special taxes to be collected.</p> <p>EIFD property tax increment may also be used as repayment source for debt service on municipal bonds.</p>	<p>Initial debt capacity may not match need for required upfront capital costs.</p>
Benefit Assessment District	<p>Benefit Assessment Districts allow cities, counties, or special districts to finance the costs of needed services by assessing area property owners, based on benefit received by funded improvements or facilities.</p> <p>Most common types of benefit assessments include:</p> <ul style="list-style-type: none"> - Fire suppression assessments - Flood control assessments - Storm drain assessments - Water assessments - Sewer assessments - Sanitation assessments 	<p>The governing body must generate a detailed professional engineer's report outlining the proposed assessment area, proposed project costs, annual cost to each property, and the benefit formula used to determine each property's share of the cost.</p> <p>Requires a greater than 50 percent ballot approval that is weighted based on the financial obligation of each property owner.</p>	<p>Benefit assessments cannot be based on property value. Each assessment district includes a benefit formula and each parcel in the service area is assessed according to the specific benefit it receives from the services and improvements.</p>
Disposition of Public Land/Assets	<p>Local jurisdiction may dispose of its property assets (through sale or ground lease)</p>	<p>Requires local government asset appropriate for disposition and governing body approval, subject to a number of requirements.</p>	
General Fund Contributions/Dedications	<p>A dedication of General Fund property or sales tax revenue, low interest loans, one-time contributions, and other discretionary financial contributions.</p>	<p>General Fund contributions are part of local agency annual budget appropriations process and must be approved by the governing body. (does not require voter approval).</p>	
Voter Approved Tax Measures	<p>Voters can approve parcel or sales tax increases for a specific purpose or general revenue purposes. Annual revenue stream may be used as repayment source for issuance of municipal bonds (Special Tax or Tax Allocation Bonds).</p>	<p>Requires 2/3rds voter approval for special tax and majority approval for general tax.</p>	

**Table 5-2
Salinas Housing Target Market Analyses
Local, State, Federal Government, and Private-Sector Funding Finance Options Detail**

Mechanism	Description	Implementation	Other Considerations
Development Impact Fees	One-time fees charged to new development to cover "fair share" infrastructure cost needed to accommodate growth. Often a source of local "matching" funds.	Approved by the governing body vote (does not require property owner approval).	
Other Fees & Exactions (including "in-lieu" fees)	There are a number of other mechanisms such as project-specific fees and exactions that could be used as funding mechanisms.	These can be negotiated on a case-by-case basis (e.g., Development Agreement) or approved generally for areas within the local jurisdiction, subject to a number of requirements.	
Private Capital/Developer Equity	Developers may fund portion of infrastructure and facilities with private capital and/or commercial lending. A portion of such investment may be subject to reimbursement.	Developers raise and organize private financing. Development Agreement(s) will specify terms of credits or reimbursement for such investments.	
Revenue Bond	Allows local agencies to issue bonds supported by enterprise revenues (rates charged to customers for enterprise utilities or services). Generally limited to enterprise infrastructure (e.g. water, sewer, parking); could be a source of area-specific financing using a local rate surcharge.	Articulation of enterprise improvements and precise cost estimates and related rate-setting decisions. Local agency adopts resolution to form district, conducts financing plan, and develops rate and method of apportionment.	Proposition 218 limits use of ratepayer funds to fund infrastructure and facilities benefitting new development. If based on an area surcharge, revenue will be available proportional to development.
Municipal Lease Financing	An agreement to lease a public facility, with shares in the flow of lease revenue sold as a means of generating upfront revenue for the facility.	Lease payments would come from the local agency annual budget and must be approved by the local agency (does not require voter approval).	Requires identification of public asset to be pledged.
State Grant Funding Program: Home Investment Partnerships Program (HOME)	HOME assists cities, counties, developers, including Native American Entities, and nonprofit community housing development organizations (CHDOs) to create and retail affordable housing.	HOME provides grants to cities and counties; low-interest loans to state-certified CHDOs operating in State-eligible jurisdictions. Eligible activities include housing rehabilitation, new construction, and acquisition and rehabilitation, for both single-family and multifamily projects, and predevelopment loans to CHDOs. All activities must benefit lower-income renters or owners.	At least 50 percent of the amount is awarded to rural applicants and 15 percent is set aside for CHDOs. Funds are available in California communities that do not receive HOME funding directly from the HUD. Funding is announced annually through a Notice of Funding Availability.
State Grant Funding Program: Housing-Related Parks Program	Designed to encourage cities and counties to develop new residential housing by rewarding those jurisdictions that approve housing affordable to lower-income households and are in compliance with State housing element law. The program provides funds for parks and recreation projects that benefit the community and add to the quality of life.	Grants are provided for creation of new parks or rehabilitation or improvements to existing parks. Grant amounts are based on the numbers of bedrooms in newly-constructed rental and ownership units restricted for very low- and low-income households for which building permits have been issued during the designated program year covered by the Notice of Funding Availability. Bonus grant funds will be awarded for newly constructed units, units affordable to extremely low-income households, units developed as infill projects, jurisdictions demonstration progress in increasing their overall housing supply, park projects which will serve disadvantaged communities, park projects located within park deficient communities, and park projects supporting an infill project or located within a jurisdiction included in an adopted regional blueprint plan.	

**Table 5-2
Salinas Housing Target Market Analyses
Local, State, Federal Government, and Private-Sector Funding Finance Options Detail**

Mechanism	Description	Implementation	Other Considerations
State Grant Funding Program: No Place Like Home Program	On July 1, 2016, Governor Brown signed landmark legislation enacting the No Place Like Home Program to dedicate \$2 billion in bond proceeds to invest in the development of permanent supportive housing for persons who are in need of mental health services and are experiencing homelessness, chronic homelessness, or who are at risk of chronic homelessness. The bonds are repaid by funding from the Mental Health Services Act.	Counties will be eligible applicants (either solely or with a housing development sponsor). Funding for permanent supportive housing must utilize low barrier tenant selection practices that prioritize vulnerable populations and offer flexible, voluntary, and individualized supportive services. Counties must commit to provide mental health services and help coordinate access to other community-based supportive services.	Preliminary time frame of implementation is provided below. - Initial research and stakeholder outreach - Fall 2016 - Advisory Committee meeting begins - Winter 2016 - Release of framework paper and start of public comment period - Winter 2016 - Guideline development - Spring 2017 - Completion of guidelines and Notice of Funding Availability - Summer 2017 - Notice of Funding Availability Release - Winter 2018
State Grant Funding Program: Predevelopment Loan Program (PDLP)	Provides predevelopment capital to finance the start of low-income housing projects. Eligible applicant	Three percent simple annual interest short-term loans for up to two years. Maximum loan amount for purposes other than site option or site purchase is \$100,000. The maximum amount committed to any one borrower at any point in time is announced in each Notice of Funding Availability. Eligible activities include predevelopment costs of projects to construct, rehabilitate, convert, or preserve assisted housing, including manufactured housing and mobile home parks. Eligible costs include but are not limited to site control, site acquisition for future low-income housing development, engineering studies, architectural plans, application fees, legal services, permits, bonding, and site preparation.	Priority will be given to developments which are rural, located in public transit corridors, or which preserve or acquire existing government-assisted rental housing at risk of conversion to market rents.
State Grant Funding Program: Infill Infrastructure Grant Program	Assists in the new construction and rehabilitation of infrastructure that supports higher-density affordable and mixed-income housing in locations designated as infill.	Program provides grants for new construction, rehabilitation, and acquisition of infrastructure required as a condition of or approved in connection with approval of Qualifying Infill Projects (definitions provided in program application). Minimum/maximum grant amounts for Qualifying Infill Projects: \$500,000/\$4,000,000. For Qualifying Infill Projects and large multi-phased Qualifying Infill Projects, eligible applicants include nonprofit and for-profit developers and as a joint applicant with the developer, a locality or public housing authority.	
State Grant Funding Program: Land and Water Conservation Fund	On February 14, 1963, President Kennedy's Administration proposed legislation to establish a "Land and Water Conservation Fund" to assist States in planning, ACQUISITION, and DEVELOPMENT of recreation lands. Examples of projects include: development of a new park, expand existing parks, renovate existing or create new outdoor facilities, provide community space for healthy lifestyles, engage community residents during the project concept and design process, and increase the inventory of California Wetlands under federal protection that also meet public outdoor recreation needs.	Cities, Counties, JPA's, park districts, and special districts are eligible applicants. The maximum award amount is \$2 million, however the State Parks Department typically only receives \$3-4 million annually for the whole State. There is a 50% match requirement, and the land must be held in perpetuity.	

**Table 5-2
Salinas Housing Target Market Analyses
Local, State, Federal Government, and Private-Sector Funding Finance Options Detail**

Mechanism	Description	Implementation	Other Considerations
State Grant Funding Program: Active Transportation Program	<p>The ATP consolidates various transportation programs, including the federal Transportation Alternatives Program, state Bicycle Transportation Account, and federal and state Safe Routes to School programs into a single program to:</p> <ul style="list-style-type: none"> Increase the proportion of biking and walking trips, Increase safety for non-motorized users, Increase mobility for non-motorized users, Advance the efforts of regional agencies to achieve greenhouse gas reduction goals, Enhance public health, including the reduction of childhood obesity through the use of projects eligible for Safe Routes to Schools Program funding, Ensure disadvantaged communities fully share in program benefits (25% of program), and Provide a broad spectrum of projects to benefit many types of active transportation users. 	<p>Eligible applicants include local, regional , or state agencies, Caltrans, transit agencies, schools, tribal governments, and nonprofits. There are no matching funds required. The minimum request for Active Transportation Program funds that will be considered is \$250,000. This minimum does not apply to non-infrastructure projects, Safe Routes to Schools projects, Recreational Trails projects, and plans. There is no maximum grant award request.</p>	
State Grant Funding Program: Affordable Housing and Sustainable Communities Program	<p>The AHSC Program will provide grants and/or loans to projects that will achieve GHG reductions and benefit Disadvantaged Communities through increasing accessibility of affordable housing, employment centers and key destinations via low-carbon transportation resulting in fewer vehicle miles traveled (VMT) through shortened or reduced vehicle trip length or mode shift to transit, bicycling or walking. Three project prototypes have been identified to implement this strategy: 1) Transit Oriented Development (TOD) Project Areas, or 2) Integrated Connectivity Project (ICP) Project Areas, or 3) Rural Innovation Project Areas (RIPA).</p>	<p>Local governments are eligible applicants. Eligible uses include: Affordable Housing Developments, Housing Related Infrastructure, Sustainable Transportation Infrastructure, Transportation- Related Amenities, and Programs. The maximum award is \$20 million and the minimum award is \$1 million for TOD projects and \$500,000 for ICP and RIPA Project Areas.</p>	
Federal Grant Funding Program: Economic Development Administration	<p>Specifically, under the Economic Development Assistance programs (EDAP) Federal Funding Opportunity (FFO) announcement, EDA will make construction, non-construction, and revolving loan fund investments under the Public Works and Economic Adjustment Assistance (EAA) Programs. Grants made under these programs will leverage regional assets to support the implementation of regional economic development strategies designed to create jobs, leverage private capital, encourage economic development, and strengthen America's ability to compete in the global marketplace. Through the EDAP FFO, EDA solicits applications from rural and urban communities to develop initiatives that advance new ideas and creative approaches to address rapidly evolving economic conditions.</p>	<p>Local governments are eligible applicants. The maximum award is \$3 million and the minimum award is \$100,000. It is important to work with the Regional EDA Representative on the development of the application.</p>	
Federal Grant Funding Program: Outdoor Legacy Recreation Partnership Program	<p>This is a new grant program funding through the Land and Water Conservation Fund. These funds will help acquire and/or develop land for public parks and other outdoor recreation spaces in disadvantaged neighborhoods. The first and last round was funded in 2014, however this program could be funded in the future.</p>	<p>Local governments are eligible applicants. This is a highly competitive program, as there was only \$3 million available nation wide last round. Matching 1:1 grants will be awarded in amounts between \$250,000 and \$500,000 federal share.</p>	

**Table 5-2
Salinas Housing Target Market Analyses
Local, State, Federal Government, and Private-Sector Funding Finance Options Detail**

Mechanism	Description	Implementation	Other Considerations
MBEP Housing Trust Fund	The Monterey Bay Economic Partnership and Housing Trust Silicon Valley sponsor a revolving loan fund known as the Monterey Bay Housing Trust. The goal of this fund is to increase the supply of affordable housing for low-income households. The fund uses proceeds from loans to invest in additional projects.	Eligible borrowers include nonprofit organizations, limited partnerships and single asset entities with nonprofit sponsors, and mission-aligned for profit entities. Loan amounts are up to \$500,000 unsecured and up to \$2,000,000 secured, possibly more for projects that meet the appropriate credit profile.	
Community Development Block Grant Program (CDBG)	<p>Provides annual grants on a formula basis to entitled cities and counties to develop viable urban communities by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for low and moderate income persons. "Persons of the low and moderate-income" is defined as families, households, and individuals whose incomes do not exceed 80 percent of the county median income, with adjustments for household size.</p> <p>Each year, the CDBG program makes funds available to eligible jurisdictions through several allocations:</p> <ul style="list-style-type: none"> • General and Native American • Economic Development • Planning and Technical Assistance (PTA) and • Colonias 	<p>CDBG funds are provided as grants. Maximum grant amounts vary by activity and run between \$600,000 and \$1,500,000, not including additional amounts available under the Native American and Colonia allocations. Grants must address one of three national objectives:</p> <ol style="list-style-type: none"> 1. Benefit to low- and moderate-income persons, 2. Aid in the prevention or elimination of slums of blight, or 3. To meet an urgent need. <p>Eligible activities include housing rehabilitation and new housing construction, public improvements, community facilities, public services, planning and technical assistance, Native American allocation, and Colonia allocation.</p>	
Mills Act Property Tax Abatement Program	The Mills Act is an incentive program in California for the restoration and preservation of qualified historic buildings by private property owners. The program is administered and implemented by local governments. Mills Act contracts are between the property owner and the local government granting the tax abatement. These contracts require the property owners to preserve, maintain, and improve their property, in exchange for property tax savings.	Recipients must prepare a Maintenance Plan and submit a bi-annual report to the Community Development Director, which will specify all work done to maintain and preserve the historic building over the year in accordance with the recipient's maintenance plan. The contract process is initiated by submittal of a complete application and fee to the Community Development Director. Staff then prepares a report for the Historic Resources Board. The City Council takes final action on the request and either approves, modifies, or denies it. The City limits property tax reductions to \$100,000 per year. The city gains five times the reduction in taxes in the form of property improvements from properties that take advantage of the program.	

capital

cost, long term financing of for development impact fees and qualified public facility improvements, and accelerates fee revenues to the benefit of the participating agency. The City should utilize this existing tool to facilitate infill development where financial feasibility is constrained.

- **Other Funding Sources.** The City should continue to aggressively pursue maximum application of grant funding sources and other project-specific funding and financing sources, as more particularly outlined in **Table 5-1**.

Implement Public Private Partnership Development Strategy

With all or some of the above action items and policy changes in place, the City will be better positioned to attract private developer interest. Overcoming stigma and other obstacles, namely the nature of the untested housing market and potential remaining financial feasibility issues, however, will require additional City initiatives and incentives. EPS recommends that the next phase of the infill housing pilot program take the form of a Public Private Partnership (P3) development strategy concept via which the City solicits private developer interest in one or more Downtown opportunity sites and partners with that party to effect a mutually beneficial development project.

Key steps to moving forward with a robust P3 to create near-term success in developing Downtown Salinas infill housing are provided below.

- **Define City/other organizational approach to site development program.** It is recommended that a specific staff lead be assigned to the Infill Housing Pilot Program, charged with carrying out the following tasks in conjunction with other City departments and the development community.
 - Work with staff and elected officials to confirm and refine prioritizing of key development sites, prototypes, potential funding sources, related amenities, and criteria for and potential form of City participation.
 - Determine and address local property owner interest in participation or concerns regarding site disposition strategies.
 - Conduct existing/prospective retailer outreach. Develop understanding of concerns and interim strategy for meeting customer parking demand. Coordinate efforts undertaken in this study with the outcomes of the parking study.
 - Identify potential outside partners (e.g., California Endowment, Packard Foundation, UC Davis CRC, others) and engage in dialogue regarding potential grants and loans in addition to other support for remediating social conditions in the adjacent Chinatown district and stabilizing the socio-economic context for urban infill development.
- **Developer Outreach and Selection.** It is recommended that the City initiate a Request for Qualifications (RFQ) or Request for Proposals (RFP) process to select one or more infill housing developers to conduct one or more initial demonstration or catalyst projects on specific City owned sites. *Note that this process would not be intended to preclude development of other sites by other private development interests or to select a single*

Developer for all of Downtown – the objective would be to catalyze more Downtown development via targeted partnerships and incentivized demonstration projects on City owned sites.

Rather than issuing a large and complex RFQ/RFP document to a broad and unspecified development community, it is recommended that a more specific and tailored approach be used in identifying a subset of potential development interests that specialize and excel in infill contexts with a proven track record and understanding of local context. Initial research would result in an identified short list of development entities inclined to respond to an RFQ/RFP package, followed by selection and negotiation processes. Specific steps include:

- Developer outreach. Identify list of candidate developers, provide an encapsulated summary of key statistics and range of opportunities, and initiate discussions regarding targeted consumer segments, key housing prototypes, and site development concepts and priorities. Discuss conceptual deal components and imperatives with short listed group of developers, with intent being the broad outline of a workable deal structure providing the City and the selected Developer with appropriate economic incentives and outcomes.
- Market segment and site development prioritization. Initial feasibility testing indicates a strong potential for matching townhome development to mid-priced mid-density ownership product on Lot 3 or Lot 12, as discussed in Chapter 3. Initial outreach efforts should focus on these opportunities. Longer term potential for market rate apartments or stacked flats should be evaluated for other opportunity sites (e.g. Lot 5) as the market matures.
- It is critical to note that these recommendations reflect initial development and disposition strategies and should not preclude other development typologies or other sites. The City should maintain maximum flexibility to respond to private sector interest and market demand.
- Evaluate and determine return requirements based on reduced risk profile. Initial pro forma indicators should be continually refined to determine the ability to meet return rates sought by developer-investors. A specific package of off-site improvements (e.g., parking, pocket parks, etc.) and economic incentives should be negotiated for an initial set of “catalytic demonstration projects”. Coordinating and implementing an initial set of projects will be an instructive process informing the City and its current/prospective development partners as to the appropriate products and any additional policy changes needed to bring a steady line-up of projects to the City’s downtown.
- Refine internal Development and Disposition Strategy. Hold internal City meetings during an interim juncture to weigh additional information received, expressed developer preferences, and options regarding financing strategies.
- Issue RFP for Developer for a limited range of initial projects with right of first refusal for subsequent projects if performance milestones are hit. Identify three or four candidate development sites for initial response.
- Enter into exclusive negotiations with selected Developer, exploring disposition terms for rental and ownership housing. Ground leasing deal structures severely constrain the pool

of interested investors, and the City should make every effort to accommodate fee simple transactions.

- Negotiate key issues, including funding of replacement parking, funding of off-site infrastructure, sale price/lease terms, goals/performance standards, and right of first refusal on subsequent opportunities.

Through this process, the City can put itself into position to work with an accomplished developer demonstrating understanding and appreciation of the City's goals and objectives. The selected Developer would be willing to work with the City to tailor development concepts, densities, and regulations in an effort to reduce complexity and risk in establishing a multi-segment development program intended to reinforce and diversify the downtown population base.

As this process continues, the City can systematically evaluate the ability to phase in new retail concepts such as an urban grocery, as well as other cultural, retail, and recreational features, over the next 5 to 10 years as part of the overall Downtown Specific Plan described below.

Streamline Entitlement Policies

Following immediate policy initiatives and implementation of P3 development concept that accomplishes one or more demonstration projects, City will need to ensure that a longer term policy framework is in place to sustain momentum and optimize the functioning of the private market. EPS recommends the following key actions:

- **Develop Downtown opportunity site and adaptive reuse development regulations guide.** Downtown developers face a set of confusing and sometimes conflicting development policies and regulations. To facilitate interpretation of existing policies, staff should develop an opportunity site and development regulations guide identifying specific policies, regulations, and incentive programs (e.g., fee waiver and deferral program) applying to opportunity site as well as adaptive reuse development. The guide should also identify needed regulatory approvals (e.g., rezone) and associated environmental analysis needed during entitlement process.
- **Establish Staff Liaison.** The City should establish clear staff responsibilities to facilitate Downtown development. With limited staff resources, the City likely cannot dedicate a full-time staff person, but should endeavor to develop a program whereby a "case-manager" is assigned to each Downtown project to help shepherd the project through the entitlement process and ensure that various City departments are communicating and coordinated. These responsibilities would be a logical extension of the staff lead or liaison assigned to implement the P3 development concept.
- **Revise Central City Overlay District.** Much of the zoning and policy changes recommended above can be implemented through a comprehensive update of the Central City overlay district, which the City may be able to accomplish as part of its upcoming General Plan Update process. These changes and rezoning of opportunity sites may be accompanied by programmatic environmental clearance to streamline CEQA analysis for future projects and expedite permit processing. Revisions to the Central City Overlay District should be supplemented by the following market, infrastructure, and funding analysis:

- Supporting use strategy. As conditions for housing are improved and projects begin moving forward, it will be appropriate to begin formulating concepts for fine grained retail gaps and amenities. These may take the form of missing retail segments, such as an upper-end grocery, or other uses contributing to a diverse and robust environment, including such concepts as a charter school, additional child care options, pocket parks (as discussed above), and improved transit and bike options. All need to be integrated and phased in systematically as downtown population grows and diversifies. Over time, a reliance on “front door” parking must be substantially reduced as a walking district materializes.
- Public infrastructure review. The City’s goal is to increase housing and ancillary uses in the Downtown. Such densification will add a significant number of utility users to a concentrated area. It is imperative that the City understands the utility and infrastructure constraints and limitations to determine if prioritizing Capital Improvement Program projects can help to catalyze desired development.
- Financing Plan and Funding Source Review. Infrastructure and public facilities needed to support Downtown development will be identified by the public infrastructure review, as well as through the planning process. A comprehensive infrastructure financing strategy should be completed to identify existing funding mechanisms, to identify new funding mechanisms needed, and to establish a public infrastructure financing program designed to incentivize and encourage desired development.
- **Comprehensive Zoning Code Overhaul.** The City’s zoning code is extremely complex and difficult to follow and interpret, even for seasoned experts in zoning and development. As an integral part of the City’s upcoming General Plan Update, the City should consider a comprehensive overhaul of its zoning regulations to streamline and clarify land use parameters.



APPENDICES:

- Appendix A: Real Estate Market
Performance Indicators
- Appendix B: Mixed Use Central City Overlay
Development Programming
- Appendix C: Pro Forma Analysis Detail



APPENDIX A:

Real Estate Market Performance Indicators

Table A-1	Multifamily Market Metrics—Inventory (2 pages)	A-1
Table A-2	Detailed Multifamily Market Analysis	A-3
Table A-3	Average Single-Family Home Sales	A-4
Table A-4	New Home Asking Price Comparison (3 pages)	A-5

**Table A-1
Salinas Housing Target Market Analyses
Multifamily Market Metrics
Inventory**

Inventory

Market	2007 Q2		2008 Q2		2009 Q2		2010 Q2		2011 Q2		2012 Q2	
	Buildings	Units	Buildings	Units	Buildings	Units	Buildings	Units	Buildings	Units	Buildings	Units
1 Mile Radius (E Alisal St. & Monterey St.)	141	2,559	141	2,559	141	2,559	141	2,559	142	2,582	142	2,582
City of Salinas	464	13,316	464	13,316	464	13,316	464	13,316	465	13,339	465	13,339
Inland Monterey County	551	15,365	554	15,519	555	15,527	557	15,651	558	15,674	560	15,773
Salinas MFR Market Area	920	24,722	923	24,876	924	24,884	926	25,008	927	25,031	929	25,130

Source: CoStar; EPS.

A-1

**Table A-1
Salinas Housing Target Market Analyses
Multifamily Market Metrics
Inventory**

Inventory

Market	2013 Q2		2014 Q2		2015 Q2		2016 Q2		Difference (2007-2016)	
	Buildings	Units	Buildings	Units	Buildings	Units	Buildings	Units	Buildings	Units
1 Mile Radius (E Alisal St. & Monterey St.)	142	2,582	142	2,582	142	2,582	142	2,582	1	23
City of Salinas	465	13,339	465	13,339	464	13,235	464	13,235	0	(81)
Inland Monterey County	560	15,773	561	15,831	560	15,727	560	15,727	9	362
Salinas MFR Market Area	929	25,130	932	25,362	931	25,258	931	25,258	11	536

"inventory"

Source: CoStar; EPS.

A-2

Table A-2
Salinas Housing Target Market Analyses
Detailed Multifamily Market Analysis [1]

Property	Address	Number of Units	Average Unit Size (Sq. Ft.)	Average Rent	Average Rent per Sq. Ft.	Star Rating (Out of 5)	Property Size (Sq. Ft.)	Land Area (Sq. Ft.)	FAR	Number of Parking Spaces	Spaces per Unit	Year Built
Apartment Complex												
Tierra Vista Apartments	22-50 Russell Road	64	850	\$1,350	\$1.59	2	54,400	92,401	0.59	80	1.25	N/A
Pointe at Harden Ranch	N Main Street	78	849	\$1,557	\$1.83	3	154,106	265,150	0.58	200	2.56	N/A
Villa Fontana Apartments	50 E Market Street	120	384	\$1,560	\$4.06	3	46,302	21,261	2.18	30	0.25	1928
Sanborn Place Apartments	751 Sanborn Place	32	500	\$1,009	\$2.02	2	21,602	59,195	0.36	36	1.13	N/A
Nissen Village Apartments	75 Nissen Road	70	530	\$1,125	\$2.12	2	38,336	67,082	0.57	70	1.00	1976
Steinbeck Commons	10 Lincoln Avenue	100	549	\$1,050	\$1.91	3	75,772	89,028	0.85	40	0.40	1984
Pointe at Westlake	60 Stephanie Drive	145	585	\$1,376	\$2.44	3	154,686	N/A	N/A	N/A	N/A	1975
Village Green Apartments	1330 Byron Drive	104	601	\$1,387	\$2.31	3	72,684	224,334	0.32	161	1.55	1962
The Park Terrace Apartments	619 E Romie Lane	52	613	\$1,127	\$1.84	2	30,170	64,514	0.47	N/A	N/A	1963
Tahitian Village Apartments	976 W Alisal Street	35	704	\$1,080	\$1.62	2	31,584	46,800	0.67	35	1.00	1964
The Courtyard Apartments	22 Capitol Street	40	710	\$1,272	\$1.79	2	28,400	52,800	0.54	40	1.00	1984
Acacia Manor Apartments	861 W Acacia Street	38	722	\$1,121	\$1.55	2	49,018	97,138	0.50	58	1.53	1979
Villa Hartnell	605 Hartnell Street	16	737	\$1,064	\$1.44	2	14,290	28,000	0.51	23	1.44	1961
Archer Garden Apartments	633 Archer Street	32	775	\$1,226	\$1.58	2	24,912	48,787	0.51	N/A	N/A	1972
Mariner Village Apartments	442 Rico Street	176	797	\$1,282	\$1.61	3	140,296	431,847	0.32	60	0.34	N/A
Mission Apartments	103 W Romie Lane	96	800	\$1,150	\$1.53	2	85,962	225,362	0.38	80	0.83	1951
Cypress Creek	100-162 Casentini Street	288	875	\$1,823	\$2.08	3	252,000	675,180	0.37	128	0.44	1987
Cypress Landing	552 Rico Street	112	898	\$1,606	\$1.79	2	101,112	261,360	0.39	162	1.45	1989
270 Harvest Street	270 Harvest Street	26	900	\$1,033	\$1.15	2	24,794	30,102	0.82	30	1.15	1964
Maple Terrace Apartments	725 E Romie Lane	64	991	\$1,450	\$1.46	2	63,366	109,771	0.58	N/A	N/A	1972
Woodside Apartments	1040-1080 S Riker Street	80	993	\$1,550	\$1.56	2	77,140	181,601	0.42	112	1.40	1977
Clark Manor Apartments	61 Clark Street	31	1,000	\$1,132	\$1.13	2	31,100	64,033	0.49	35	1.13	1962
Salinas Bay Apartments	920 Larkin Street	95	1,079	\$1,068	\$0.99	3	130,592	304,920	0.43	40	0.42	N/A
8 Villa Street Apartments	8 Villa Street	26	N/A	\$1,155	N/A	2	18,423	41,818	0.44	20	0.77	1959
Western Apartments	225 W Alisal Street	10	N/A	\$742	N/A	2	6,902	14,850	0.46	10	1.00	1960
California Square Apartments	426 California Street	17	N/A	\$916	N/A	2	12,549	20,909	0.60	18	1.06	1976
California Pride	454 California Street	24	N/A	\$1,013	N/A	2	20,952	19,602	1.07	34	1.42	N/A
Pajaro Apartments	1031-1035 Pajaro Street	12	N/A	\$983	N/A	2	7,084	18,731	0.38	12	1.00	1949
43 Plaza Circle	43 Plaza Circle	16	N/A	\$1,062	N/A	2	11,855	18,731	0.63	34	2.13	1978
Weighted Average		69	761	\$1,287	\$1.69	2.6	61,393	127,690	0.48	62	0.90	1968

"mfr_rent_detail"

[1] Includes properties with 10 or more units, and properties that include asking rent prices.

Table A-3
Salinas Housing Target Market Analyses
Average Single-Family Home Sales [1]

Item	Sale Price	Sq. Ft.	Price per Sq. Ft.	Lot Size (Sq. Ft.)	Avg. Density (DU/Acre)	Bedrooms	Baths	Year Built	No. of Records
Recent Homes Sales - Lot Size 0.5 acre or Less [2]									
Salinas	\$383,701	1,574	\$243.76	5,824	6.0	3	2.0	1973	459
Other Monterey Co. Communities									
Hollister	\$462,559	1,736	\$266.49	6,414	5.4	3	2.0	1984	108
Marina	\$471,715	1,513	\$311.81	6,605	5.3	3	2.0	1975	76
Monterey	\$652,354	1,477	\$441.66	5,244	6.6	3	2.0	1962	119
San Juan Bautista	\$483,425	1,958	\$246.89	7,479	4.7	3	2.0	1963	16
Seaside	\$448,616	1,271	\$353.07	5,279	6.6	3	1.5	1962	115
Weighted Avg. Communities	\$513,277	1,511	\$339.75	5,865	5.9	3	2.0	1970	87
Total Weighted Average	\$446,675	1,543	\$289.43	5,844	6.0	3	2.0	1972	149
Salinas as a % of Monterey Communities									
Hollister	83%	-	91%	-	-	-	-	-	-
Marina	81%	-	78%	-	-	-	-	-	-
Monterey	59%	-	55%	-	-	-	-	-	-
San Juan Bautista	79%	-	99%	-	-	-	-	-	-
Seaside	86%	-	69%	-	-	-	-	-	-
Weighted Avg. Communities	75%	-	72%	-	-	-	-	-	-
Salinas as a % of Total Weighted Average									
Average	86%	-	84%	-	-	-	-	-	-
Recent Homes Sales - Lot Size 4,500 Sq. Ft. or Less [2]									
Salinas	\$307,519	1,359	\$226.36	2,683	13.0	3	2.0	1987	107
Proximity Communities									
Hollister	\$384,296	1,425	\$269.61	2,467	14.1	3	2.0	1985	39
Marina	\$411,708	1,359	\$302.91	2,700	12.9	3	2.0	1989	16
Monterey	\$539,706	1,112	\$485.31	1,797	19.4	2	1.5	1969	62
San Juan Bautista	\$440,000	2,216	\$198.56	4,210	8.3	2	1.5	1905	2
Seaside	\$374,805	991	\$378.13	3,346	10.4	3	1.5	1959	53
Weighted Avg. Communities	\$440,589	1,182	\$372.85	2,538	13.7	3	1.5	1971	34
Weighted Average	\$389,555	1,250	\$311.77	2,594	13.4	3	2.0	1977	71
Salinas as a % of Monterey Communities									
Hollister	80%	-	84%	-	-	-	-	-	-
Marina	75%	-	75%	-	-	-	-	-	-
Monterey	57%	-	47%	-	-	-	-	-	-
San Juan Bautista	70%	-	114%	-	-	-	-	-	-
Seaside	82%	-	60%	-	-	-	-	-	-
Weighted Avg. Communities	70%	-	61%	-	-	-	-	-	-
Salinas as a % of Total Weighted Average									
Average	79%	-	73%	-	-	-	-	-	-

"sales_record"

Source: Redfin; EPS.

[1] Based on home sales on maximum of 4,500 square foot lots in the past six months as of August 2016.

[2] Sales records include the following property types: house, condo, and townhouse.

Table A-4
Salinas Housing Target Market Analyses
New Home Asking Price Comparison

Project-Location	Project Type	Starting Asking Sales Price	Sq. Ft.	Asking Sales Price per Sq. Ft.	Lot Size (Sq. Ft.)	Approx. Density (DU/Ac.) [1]	Bed	Bath
East Garrison Master Plan - Marina, CA								
Grove Collection								
The Alder	SFR Detached	\$444,000	1,437	\$308.98	2,628	13.3	3	2.5
The Sycamore	SFR Detached	\$472,000	1,649	\$286.23	2,628	13.3	3	2.5
The Cypress	SFR Detached	\$495,000	1,866	\$265.27	2,628	13.3	3	2.5
Average Grove Collection		\$470,333	1,651	\$284.94	2,628	13.3	3	2.5
Monarch Collection								
The Ventana	SFR Detached	\$472,000	1,575	\$299.68	2,725	12.8	3	2.5
The Mariposa	SFR Detached	\$489,000	1,700	\$287.65	2,725	12.8	3	2.5
The Geneva	SFR Detached	\$512,000	1,870	\$273.80	2,725	12.8	4	3.0
Average Monarch Collection		\$491,000	1,715	\$286.30	2,725	12.8	3	2.5
Artisan Collection								
The Emerson	SFR Detached	\$528,000	1,719	\$307.16	3,845	9.1	3	2.0
The Hemingway	SFR Detached	\$555,000	1,975	\$281.01	3,845	9.1	3	3.0
The Rockwell [2]	SFR Detached	\$578,000	2,245	\$257.46	3,845	9.1	4	2.5
The Steinbeck [2] [3]	SFR Detached	\$559,000	2,411	\$231.85	3,845	9.1	4	3.0
Average Artisan Collection		\$555,000	2,088	\$265.87	3,845	9.1	4	2.5
Heritage Collection								
The Cambridge	SFR Detached	\$631,000	2,127	\$296.66	4,994	7.0	3	2.0
The Hartford [3]	SFR Detached	\$618,000	2,492	\$247.99	4,994	7.0	3	2.5
The Lexington	SFR Detached	\$643,000	2,791	\$230.38	4,994	7.0	4	2.5
The Savannah [3]	SFR Detached	\$663,000	2,877	\$230.45	4,994	7.0	4	3.0
Average Heritage Collection		\$638,750	2,572	\$248.37	4,994	7.0	4	2.5
Promenade Collection								
The Larkin	SFR Detached	\$594,900	1,895	\$313.93	6,214	5.6	2	2.5
The Stevenson	SFR Detached	\$624,900	2,139	\$292.15	6,214	5.6	3	2.5
The Colton	SFR Detached	\$639,900	2,417	\$264.75	6,214	5.6	4	3.5
Average Promenade Collection		\$619,900	2,150	\$288.28	6,214	5.6	3	3.0
Vantage Collection								
The Sandstone Ridge [2] [3]	SFR Detached	\$750,000	3,146	\$238.40	10,002	3.5	4	3.0
The Perry Ridge [3]	SFR Detached	\$775,000	3,349	\$231.41	10,002	3.5	5	3.5
Average Vantage Collection		\$762,500	3,248	\$234.80	10,002	3.5	5	3.5
Average East Garrison Master Plan		\$581,247	2,194	\$264.96	4,740	7.4	3	2.5

Table A-4
Salinas Housing Target Market Analyses
New Home Asking Price Comparison

Project-Location	Project Type	Starting Asking Sales Price	Sq. Ft.	Asking Sales Price per Sq. Ft.	Lot Size (Sq. Ft.)	Approx. Density (DU/Ac.) [1]	Bed	Bath
The Dunes - Marina, CA								
Beach House								
Plan 1 [3]	SFR Detached	\$715,000	2,129	\$335.84	N/A	N/A	3	2.5
Plan 2 [3]	SFR Detached	\$738,000	2,280	\$323.68	N/A	N/A	3	2.5
Plan 3 [3]	SFR Detached	\$762,000	2,430	\$313.58	N/A	N/A	4	3.0
Average Beach House		\$738,333	2,280	\$323.88	N/A	N/A	3	2.5
Sea House								
Plan 1	SFR Attached	\$554,000	1,523	\$363.76	N/A	N/A	2	2.5
Plan 2 [3]	SFR Attached	\$574,000	1,692	\$339.24	N/A	N/A	2	2.5
Plan 3	SFR Attached	\$594,000	1,816	\$327.09	N/A	N/A	3	2.5
Plan 4 [3]	SFR Attached	\$604,000	1,896	\$318.57	N/A	N/A	3	2.5
Average Sea House		\$581,500	1,732	\$335.79	N/A	N/A	3	2.5
Surf House								
Plan 1	SFR Detached	\$665,000	1,928	\$344.92	N/A	N/A	3	2.5
Plan 2 [3]	SFR Detached	\$697,000	2,060	\$338.35	N/A	N/A	3	2.5
Plan 3 [3]	SFR Detached	\$713,901	2,158	\$330.82	N/A	N/A	3	2.5
Average Surf House		\$691,967	2,049	\$337.76	N/A	N/A	3	2.5
Average The Dunes		\$661,690	1,991	\$332.31	N/A	N/A	3	2.5
Summerfield - Soledad, CA								
Clover	SFR Detached	\$332,900	1,568	\$212.31	6,000	5.8	3	2.0
Daisy	SFR Detached	\$362,900	1,986	\$182.73	6,000	5.8	4	2.5
Rose	SFR Detached	\$372,900	2,098	\$177.74	6,000	5.8	4	2.5
Lilly [2] [3]	SFR Detached	\$392,900	2,398	\$163.84	6,000	5.8	4	2.5
Poppy [2] [3]	SFR Detached	\$402,900	2,636	\$152.85	6,000	5.8	5	2.5
Average Summerfield		\$372,900	2,137	\$174.48	6,000	5.8	4	2.5
Ladd Ranch - Hollister, CA								
Garden	SFR Detached	\$527,990	2,265	\$233.11	N/A	N/A	4	3.0
Meadow	SFR Detached	\$538,990	2,374	\$227.04	N/A	N/A	4	3.0
Prairie	SFR Detached	\$541,990	2,478	\$218.72	N/A	N/A	4	3.0
Average Ladd Ranch		\$536,323	2,372	\$226.07	N/A	N/A	4	3.0

Table A-4
Salinas Housing Target Market Analyses
New Home Asking Price Comparison

Project-Location	Project Type	Starting Asking Sales Price	Sq. Ft.	Asking Sales Price per Sq. Ft.	Lot Size (Sq. Ft.)	Approx. Density (DU/Ac.) [1]	Bed	Bath
Serenity - Hollister, CA								
Residence 1	SFR Detached	\$540,990	1,832	\$295.30	N/A	N/A	3	2.0
Residence 2	SFR Detached	\$555,990	1,942	\$286.30	N/A	N/A	3	2.5
Residence 3	SFR Detached	\$564,990	2,073	\$272.55	N/A	N/A	3	2.0
Residence 4	SFR Detached	\$574,990	2,206	\$260.65	N/A	N/A	4	2.5
Residence 5	SFR Detached	\$584,990	2,422	\$241.53	N/A	N/A	4	3.0
Residence 6	SFR Detached	\$598,990	2,365	\$253.27	N/A	N/A	4	3.5
Residence 7	SFR Detached	\$614,990	2,571	\$239.20	N/A	N/A	4	3.0
Residence 8	SFR Detached	\$639,990	2,930	\$218.43	N/A	N/A	5	3.5
Residence 9	SFR Detached	\$670,990	3,326	\$201.74	N/A	N/A	4	3.5
Average Serenity		\$594,101	2,407	\$246.78	N/A	N/A	4	3.0
Village at Santa Ana - Hollister, CA								
Harvest Collection								
The Auburn	SFR Detached	\$527,900	2,010	\$262.64	N/A	N/A	4	2.0
The Hazel	SFR Detached	\$554,900	2,286	\$242.74	N/A	N/A	4	3.0
The Sage	SFR Detached	\$561,900	2,625	\$214.06	N/A	N/A	4	2.5
The Scarlet [3]	SFR Detached	\$586,900	2,794	\$210.06	N/A	N/A	4	2.5
The Sienna	SFR Detached	\$596,900	2,954	\$202.06	N/A	N/A	5	3.0
Average Harvest Collection		\$565,700	2,534	\$223.26	N/A	N/A	4	2.5
Orchard Collection								
The Maple	SFR Detached	\$464,900	1,568	\$296.49	N/A	N/A	3	2.0
The Olive	SFR Detached	\$474,900	1,740	\$272.93	N/A	N/A	4	2.0
The Pecan	SFR Detached	\$517,900	2,299	\$225.27	N/A	N/A	4	2.5
The Walnut [2] [3]	SFR Detached	\$524,900	2,398	\$218.89	N/A	N/A	4	2.5
The Chestnut	SFR Detached	\$534,900	2,538	\$210.76	N/A	N/A	4	3.0
Average Orchard Collection		\$503,500	2,109	\$238.78	N/A	N/A	4	2.5
Average Village at Santa Ana		\$534,600	2,321	\$230.31	N/A	N/A	4	2.5

"new_sales"

Source: UCP, LLC (East Garrison); Benchmark Communities; Legacy Homes; Monterey County Parcel Viewer; EPS.

- [1] Assumes 80 percent net developable acreage.
- [2] Model plan includes option for 0.5 or more bathrooms.
- [3] Model plan includes option for 1 or more bedrooms.



APPENDIX B:

Mixed Use Central City Overlay Development Programming

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**Table B-1
Salinas Housing Target Market Analyses
Mixed Use Central City Overlay Requirements
Renter-Occupied Apartment (RD-60)**

Renter-Occupied Apartment RD-60
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Item	Existing City Zoning Requirements	
	Rate or Percentage	Amount
Site Area (Acres)		1.0
Density (DU/Acre) [1]		60.0
Height Limit (in Feet) [1]		75
Height Limit (in Stories)		6
Market-Rate Units [2]	100%	60
Bedroom Mix [3]	<i>% of Total</i>	
Studio	23%	14
1 Bedroom	23%	14
2 Bedroom	23%	14
3 Bedroom	20%	12
4+ Bedroom	10%	6
Total	100%	60
Parking Requirements	<i>Spaces per Unit</i>	
Studio	1.0	14
1 Bedroom	1.5	21
2 Bedroom	2.0	28
3 Bedroom	2.0	24
4+ Bedroom	4.0	24
Total		111
Usable Open Space Requirements [4]	<i>Sq. Ft. per Unit</i>	
	500	30,000

"rent_requirements"

Source: City of Salinas Municipal Code; EMC; EPS.

- [1] Assumes Mixed Use in Central City Overlay District.
- [2] Per City's proposed Inclusionary Housing policy, development in Downtown Salinas is exempt from inclusionary housing policies and in-lieu fees.
- [3] High density residential development without a mixed use component must include at least 20 percent of units with three or more bedrooms and at least 10 percent of units with four or more bedrooms.
- [4] The City requires the provision of usable open space for high density residential uses. "Usable Open Space" may include decks, swimming pools, balconies, and the like, which is landscaped and/or developed for recreational use or outdoor activities.

Table B-2
Salinas Housing Target Market Analyses
Unit Size Requirements for Residential Development
Renter-Occupied Apartment (RD-60)

Renter-Occupied Apartment
RD-60

Item	City of Salinas Mixed Use Central City Overlay Requirements						Average Per Unit
	Studio	1 Bedroom	2 Bedroom	3 Bedroom	4+ Bedroom	Total	
Number	14	14	14	12	6	60	N/A
Unit Sq. Ft. [1]	550	750	1,100	1,350	1,700	N/A	1,000
Parking	14	21	28	24	24	111	1.85

"rent_size_requirements"

Source: Yardi Matrix; Axiometrics; EPS;

[1] Unit square footage assumptions based on EPS review of average sized units per number of bedrooms third party real estate research companies.

Table B-3
Salinas Housing Target Market Analyses
Summary of Unit Assumptions
Renter-Occupied Apartment (RD-60)

Renter-Occupied Apartment <i>RD-60</i>

Item	Base Case	Adjusted [1]
Total Units	60	60
Total Unit Mix		
Studio	14	15
1 Bedroom	14	15
2 Bedroom	14	30
3 Bedroom	12	-
4+ Bedroom	6	-
Total	60	60
Market Rate Unit Mix		
Studio	14	15
1 Bedroom	14	15
2 Bedroom	14	30
3 Bedroom	12	-
4+ Bedroom	6	-
Total	60	60
Unit Size (Sq. Ft.)		
Studio	550	550
1 Bedroom	750	750
2 Bedroom	1,100	1,100
3 Bedroom	1,350	1,350
4+ Bedroom	1,700	1,700
Average Unit Size		
Market-Rate Unit	1,000	875
Asking Rent per Sq. Ft.		
Market-Rate Unit	\$2.15	\$2.25
Average Asking Monthly Rent per Unit		
Market-Rate Unit	\$2,150	\$1,969

"rent_unit"

Source: EPS.

[1] Adjustments include updated unit mix and increased asking rent per square foot that reflect market norms in a downtown context.

Table B-4
Salinas Housing Target Market Analyses
Mixed Use Central City Overlay Requirements
Owner-Occupied Condominium/Stacked Flat

Owner-Occupied
Condominium/Stacked Flat
RD-60

Item	Existing City Zoning Requirements	
	Rate or Percentage	Amount
Site Area (Acres)		1
Density (DU/Acre) [1]		60.0
Height Limit (in Feet) [1]		75
Height Limit (in Stories)		6
Market-Rate Units [2]	100%	60
Bedroom Mix [3]	<i>% of Total</i>	
Studio	0%	0
1 Bedroom	23%	14
2 Bedroom	47%	28
3 Bedroom	20%	12
4+ Bedroom	10%	6
Total	100%	60
Parking Requirements	<i>Spaces per Unit</i>	
Studio	2.0	0
1 Bedroom	2.0	28
2 Bedroom	2.0	56
3 Bedroom	2.0	24
4+ Bedroom	2.0	12
Total		120
Usable Open Space Requirements [4]	<i>Sq. Ft. per Unit</i>	
	500	30,000

"condo_requirements"

Source: City of Salinas Municipal Code; EMC; EPS.

- [1] Assumes Mixed Use in Central City Overlay District.
- [2] Per City's proposed Inclusionary Housing policy, development in Downtown Salinas is exempt from inclusionary housing policies and in-lieu fees.
- [3] High density residential development without a mixed use component must include at least 20 percent of units with three or more bedrooms and at least 10 percent of units with four or more bedrooms.
- [4] The City requires the provision of usable open space for high density residential uses. "Usable Open Space" may include decks, swimming pools, balconies, and the like, which is landscaped and/or developed for recreational use or outdoor activities.

**Table B-5
Salinas Housing Target Market Analyses
Unit Size Requirements for Residential Development
Owner-Occupied Condominium/Stacked Flat**

Owner-Occupied Condominium/Stacked Flat <i>RD-60</i>
--

Item	City of Salinas Mixed Use Central City Overlay Requirements						Average Per Unit
	Studio	1 Bedroom	2 Bedroom	3 Bedroom	4+ Bedroom	Total	
Number	0	14	28	12	6	60	N/A
Unit Sq. Ft. [1]	550	750	1,100	1,350	1,700	N/A	1,128
Parking	0	28	56	24	12	120	2.00

"condo_size"

Source: Yardi Matrix; Axiometrics; EPS;

[1] Unit square footage assumptions based on EPS review of average sized units per number of bedrooms third party real estate research companies.

Table B-6
Salinas Housing Target Market Analyses
Summary of Unit Assumptions
Owner-Occupied Condominium/Stacked Flat

Owner-Occupied Condo/Stacked Flat <i>RD-60</i>
--

Item	Base Case	Adjusted [1]
Total Units	60	60
Total Unit Mix		
Studio	-	-
1 Bedroom	14	12
2 Bedroom	28	36
3 Bedroom	12	12
4+ Bedroom	6	-
Total	60	60
Market Rate Unit Mix		
Studio	-	-
1 Bedroom	14	12
2 Bedroom	28	36
3 Bedroom	12	12
4+ Bedroom	6	-
Total	60	60
Unit Size (Sq. Ft.)		
Studio	550	550
1 Bedroom	750	750
2 Bedroom	1,100	1,100
3 Bedroom	1,350	1,350
4+ Bedroom	1,700	1,700
Average Unit Size		
Market-Rate Unit	1,128	1,080
Sales Price per Sq. Ft.		
Market-Rate Unit	\$330	\$340
Average Asking Sales Price per Unit		
Market-Rate Unit	\$372,240	\$367,200

"condo_unit"

Source: EPS.

[1] Adjustments include updated unit mix and increased sales price per square foot that reflect market norms in a downtown context.

Table B-7
Salinas Housing Target Market Analyses
Mixed Use Central City Overlay Requirements
Owner-Occupied Attached Townhome/Rowhouse

**Owner-Occupied Attached
 Townhouse/Rowhouse**
RD-30

Item	Existing City Zoning Requirements	
	Rate or Percentage	Amount
Site Area (Acres)		1
Density (DU/Acre) [1]		30.0
Height Limit (in Feet) [1]		35
Height Limit (in Stories)		3
Market-Rate Units [2]	100%	30
Bedroom Mix [3]	<i>% of Total</i>	
Studio	0%	0
1 Bedroom	0%	0
2 Bedroom	70%	21
3 Bedroom	20%	6
4+ Bedroom	10%	3
Total	100%	30
Garage	<i>Number of Cars</i>	<i>Sq. Ft.</i>
Studio	2.0	400
1 Bedroom	2.0	400
2 Bedroom	2.0	400
3 Bedroom	2.0	400
4+ Bedroom	2.0	400

"townhome_requirements"

Source: City of Salinas Municipal Code; EMC; EPS.

[1] Assumes Mixed Use in Central City Overlay District.

[2] Per City's proposed Inclusionary Housing policy, development in Downtown Salinas is exempt from inclusionary housing policies and in-lieu fees.

[3] High density residential development without a mixed use component must include at least 20 percent of units be three or more bedrooms and that at least 10 percent of units be four or more bedrooms.

**Table B-8
Salinas Housing Target Market Analyses
Unit Size Requirements for Residential Development
Owner-Occupied Attached Townhome/Rowhouse**

**Owner-Occupied Attached
Townhouse/Rowhouse
*RD-30***

Item	City of Salinas Mixed Use Central City Overlay Requirements						Average Per Unit
	Studio	1 Bedroom	2 Bedroom	3 Bedroom	4+ Bedroom	Total	
Number	0	0	21	6	3	30	N/A
Unit Sq. Ft.	550	750	1,100	1,350	1,700	N/A	1,210
Parking	400	400	400	400	400	N/A	400

"townhome_size"

Source: Yardi Matrix; Axiometrics; EPS;

[1] Unit square footage assumptions based on EPS review of average sized units per number of bedrooms third party real estate research companies.

B-8

Table B-9
Salinas Housing Target Market Analyses
Summary of Unit Assumptions
Owner-Occupied Attached Townhome/Rowhouse

Owner-Occupied Attached Townhouse/Rowhouse <i>RD-30</i>
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Item	Base Case	Adjusted [1]
Total Units	30	30
Total Unit Mix		
Studio	-	-
1 Bedroom	-	6
2 Bedroom	21	18
3 Bedroom	6	6
4+ Bedroom	3	-
Total	30	30
Market Rate Unit Mix		
Studio	-	-
1 Bedroom	-	6
2 Bedroom	21	18
3 Bedroom	6	6
4+ Bedroom	3	-
Total	30	30
Unit Size (Sq. Ft.)		
Studio	550	550
1 Bedroom	750	750
2 Bedroom	1,100	1,100
3 Bedroom	1,350	1,350
4+ Bedroom	1,700	1,700
Average Unit Size		
Market-Rate Unit	1,210	1,080
Average Garage Size		
Market-Rate Unit	400	280
Sales Price per Sq. Ft.		
Market-Rate Unit	\$290	\$315
Average Asking Sales Price		
Market-Rate Unit	\$350,900	\$340,200

"townhome_unit"

Source: EPS.

[1] Adjustments include updated unit mix and increased sales price per square foot that reflect market norms in a downtown context.



APPENDIX C: Pro Forma Analysis Detail

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Table C-1
Salinas Housing Target Market Analyses
Use: Residential Multifamily Rental
Prototype: 65'. Up to 4 stories wood frame configured around 1 to 2-story wrap parking (Type V over Type I Construction)

Renter-Occupied
Apartment
Base Case
(RD-60)

Item	Assumptions	Per Unit	Per Gross Bldg. Sq. Ft.	Total
1 DEVELOPMENT PROGRAM ASSUMPTIONS				
2	Site Area			43,560 Sq. Ft.
3	FAR			2.24
4	Usable Open Space Requirement	500 sq. ft.		30,000
5	Gross Building Square Footage			97,518
6	Res Gross Building Sq. Ft.	67,518 square feet		67,518
7	Res Net Leasable Area (Sq. Ft.) [1]	90%		60,800
8	Total Unit Average	1,000 leasable sq. ft./unit		60
9	Market Rate Units	100%		60
10	Market Rate Units	1,000 leasable sq. ft./unit		60
11	Residential Parking Spaces	1.85 spaces per resid. unit		111
12	Parking Sq. Ft.	350 sq. ft./space		38,850
13 REVENUE ASSUMPTIONS				
14	Resid. - Base Rental Revenue (Market Rate) [2]	\$2.15 NLA sq. ft./month	\$2,150 /month	\$1,548,000
15	(less) Operating Expenses [3]	\$5,000 per unit		(\$300,000)
16	(less) Vacancy	6.0% of gross income		(\$92,880)
17	(less) Share of Real Estate Taxes	1.10% of capped value		<u>(\$229,924)</u>
18	Resid - Building Revenue Subtotal			\$925,196
19	Gross Parking Revenue-Reserved	\$50 /res. space/month		\$66,600
20	(less) Operating Expenses	\$200 per space (unattended)		(\$22,200)
21	(less) Share of Real Estate Taxes	1.10% of capped value		<u>(\$8,838)</u>
22	Parking Revenue Subtotal			\$35,562
23	Capitalized Value (resid/parking cap rates) [4]	5.25%	5.25%	\$18,300,160
24	Capitalized Value per Unit and per Bldg. Sq. Ft.		\$305,003	\$187.66
25 COST ASSUMPTIONS				
26 Direct Costs				
27	Basic site work	\$10 per site sq. ft.		\$435,600
28	Usable Open Space Cost	\$85 per gross sq. ft.		\$2,550,000
29	Resid - Building Construction Cost	\$165 per gross sq. ft.		\$11,140,470
30	Total Direct Costs		\$235,435	\$14,126,070
31 Indirect Costs				
32 Soft Costs				
33	Predevelopment	2.0% of direct costs		\$282,521
34	A&E	6.0% of direct costs		\$847,564
35	Pre-opening, marketing	1.5% of direct costs		\$211,891
36	Legal	1.0% of direct costs		\$141,261
37	Other Prof Services	1.0% of direct costs		\$141,261
38	Hard + Soft Cost Contingency	7.0% of direct costs + soft costs above this item		\$1,092,652
39	Real Estate Taxes	1.1% 12 months, construction + land value		\$197,652
40	Permit Costs	0.0% of direct costs		\$0
41	Impact Fees	\$21.35 /sq. ft.		\$2,082,256
42	Development Fee	3.0% of direct + TA + soft costs		<u>\$573,694</u>
43	Total Indirect Costs		\$92,846	\$5,570,752
44 Financing				
45	Interest	4.5% int rate and 65% LTC		\$288,066
46	Financing Fees	2.0%		<u>\$256,059</u>
47	Total Financing Costs		\$9,069	\$544,125
48	Parking Construction Costs	\$15,000 all in costs per space	\$27,750	\$17.07
49	Net Costs before Land and Profit		\$365,099	\$224.63
50	Project Profit	8%	<u>\$29,208</u>	<u>\$17.97</u>
51	Total Costs & Profit		\$394,307	\$242.61

mfr_rent_base

Notes

Many assumptions above are based on EPS's standard assumptions for pro formas based on our review of developer pro formas. Sources for selected assumptions are below.

[2] Apartment rental rates based on rates reported on CoStar for similar properties.

[3] Based on review of 2013 survey of National Apartment Association Operating Income and Expenses report and EPS's review of other apartment pro formas in Northern California.

[4] Capitalization rates are based on reported rates in IRR Viewpoint for the nearest MSA and adjusted slightly to reflect attributes of the property.

Table C-2
Salinas Housing Target Market Analyses
Use: Residential Multifamily Rental
Prototype: 65'. Up to 4 stories wood frame configured around 1 to 2-story wrap parking (Type V over Type I Construction)

**Renter-Occupied
 Apartment
 Adjusted
 (RD-60)**

Item	Assumptions	Per Unit	Per Gross Bldg. Sq. Ft.	Total
1 DEVELOPMENT PROGRAM ASSUMPTIONS				
2	Site Area			43,560 Sq. Ft.
3	FAR			1.55
4	Usable Open Space Requirement			5,000
5	Gross Building Square Footage			67,726
6	Res Gross Building Sq. Ft.	62,726 square feet		62,726
7	Res Net Leasable Area (Sq. Ft.)	85%		53,300
8	Total Unit Average	875 leasable sq. ft./unit		60
9	Market Rate Units	100%		60
10	Market Rate Units	875 leasable sq. ft./unit		60
11	Inclusionary Units	0%		0
12	Inclusionary Units	0 leasable sq. ft./unit		0
13	Residential Parking Spaces	0.00 spaces per resid. unit		0
14	Parking Sq. Ft.	350 sq. ft./space		0
15 REVENUE ASSUMPTIONS				
16	Resid. - Base Rental Revenue (Market Rate) [1]	\$2.25 NLA sq. ft./month	\$1,970 /month	\$1,417,500
17	(less) Operating Expenses [2]	\$5,000 per unit		(\$300,000)
18	(less) Vacancy	5.0% of gross income		(\$70,875)
19	(less) Share of Real Estate Taxes	1.10% of capped value		(\$208,328)
20	Resid - Building Revenue Subtotal			\$838,297
21	Gross Parking Revenue-Reserved	\$50 /res. space/month		\$0
22	(less) Operating Expenses	\$200 per space (unattended)		\$0
23	(less) Share of Real Estate Taxes	1.10% of capped value		\$0
24	Parking Revenue Subtotal			\$0
25	Capitalized Value (resid/parking cap rates) [3]	5.25%	5.25%	\$15,967,558
26	Capitalized Value per Unit and per Bldg. Sq. Ft.	\$266,126	\$235.77	
27 COST ASSUMPTIONS				
28 Direct Costs				
29	Basic site work	\$10 per site sq. ft.		\$435,600
30	Usable Open Space Cost	\$85 per gross sq. ft.		\$425,000
31	Resid - Building Construction Cost	\$165 per gross sq. ft.		\$10,349,856
32	Total Direct Costs		\$186,841	\$11,210,456
33 Indirect Costs				
34 Soft Costs				
35	Predevelopment	2.0% of direct costs		\$224,209
36	A&E	6.0% of direct costs		\$672,627
37	Pre-opening, marketing	1.5% of direct costs		\$168,157
38	Legal	1.0% of direct costs		\$112,105
39	Other Prof Services	1.0% of direct costs		\$112,105
40	Hard + Soft Cost Contingency	7.0% of direct costs + soft costs above this item		\$867,129
41	Real Estate Taxes	1.1% 12 months, construction + land value		\$156,857
42	Permit Costs	0.0% of direct costs		\$0
43	Impact Fees	\$18.00 /sq. ft.		\$1,219,075
44	Development Fee	3.0% of direct + TA + soft costs		\$442,282
45	Total Indirect Costs		\$66,242	\$3,974,545
46 Financing				
47	Interest	4.5% int rate and 65% LTC		\$222,081
48	Financing Fees	2.0%		\$197,405
49	Total Financing Costs		\$6,991	\$419,486
50	Parking Construction Costs	\$15,000 all in costs per space	\$0	\$0
51	Net Costs before Land and Profit		\$260,075	\$15,604,486
52	Project Profit	8%	\$20,806	\$1,248,359
53	Total Costs & Profit		\$280,881	\$16,852,845

"mfr_rent_adj"

Notes

Many assumptions above are based on EPS's standard assumptions for pro formas based on our review of developer pro formas. Sources for selected assumptions are below.

- [1] Apartment rental rates based on rates reported on CoStar for similar properties.
- [2] Based on review of 2013 survey of National Apartment Association Operating Income and Expenses report and EPS's review of other apartment pro formas in Northern California.
- [3] Capitalization rates are based on reported rates in IRR Viewpoint for the nearest MSA and adjusted slightly to reflect attributes of the property.

Table C-3

Use: Residential Multifamily For-Sale Condominium

Prototype: 65'. Up to 4 stories wood frame configured around 1 to 2-story parking podium (Type V over Type I Construction)

Condo/Stacked Flat
Base Case
RD-60

Item	Assumptions	Per Unit	Per Gross Bldg. Sq. Ft.	Total
1 DEVELOPMENT PROGRAM ASSUMPTIONS				
2 Site Area				43,560 Sq. Ft.
3 FAR				2.42
4 Usable Open Space		500 sq. ft.		30,000
5 Gross Building Square Footage				105,198
6 Res Gross Building Square Footage				75,198
7 Res Net Saleable Area (Sq. Ft.) [1]	90%			67,680
8 Total Unit Average	1,128 sq. ft./unit			60
9 Market Rate Units	100%			60
10 Market-Rate Units	1,128 sq. ft./unit			67,680
11 Total				67,680
12 Residential Parking Spaces	2.0 spaces per resid. unit			120
13 Parking Sq. Ft.	350 sq. ft./space			42,000
14 REVENUE ASSUMPTIONS				
15 Resid. - Base Sales Revenue (Market Rate)	\$330 /sq. ft.	\$372,240		\$22,334,400
16 (less) Marketing and Commissions	5.0% of gross sales			<u>(\$1,116,720)</u>
17 Subtotal Resid. Sales Revenue				\$21,217,680
18 Gross Parking Revenue-Reserved	\$100 /res. space/month			\$144,000
19 (less) Operating Expenses	\$400 per space (unattended)			(\$48,000)
20 Parking Revenue Subtotal				\$96,000
21 Capitalized Parking Value	5.25%			\$1,828,571
22 Net Sales Revenue		\$385,704	\$307.75	\$23,142,251
23 COST ASSUMPTIONS				
24 Direct Costs				
25 Basic site work	\$10 per site sq. ft.			\$435,600
26 Resid - Building Construction Cost	\$165 per gross sq. ft.			\$12,407,609
27 Usable Open Space Construction Costs	\$85 per gross sq. ft.			<u>\$2,550,000</u>
28 Total Direct Costs		\$256,553	\$204.70	\$15,393,209
29 Indirect Costs				
30 Soft Costs				
31 Predevelopment	2.0% of direct costs			\$307,864
32 A&E	6.5% of direct costs			\$1,000,559
33 Pre-opening, marketing	1.5% of direct costs			\$230,898
34 Legal	1.0% of direct costs			\$153,932
35 Other Prof Services	1.0% of direct costs			\$153,932
	of direct costs + soft costs			
36 Hard + Soft Cost Contingency	7.0% above this item 12 months,			\$1,206,828
37 Real Estate Taxes	1.1% construction + land value			\$230,103
38 Permit Costs	0.0% of direct costs			\$0
39 Impact Fees	\$20.61 /sq. ft.	\$25,836		\$1,550,135
40 Development Fee	3.0% of direct + soft costs			<u>\$606,824</u>
41 Total Indirect Costs		\$90,685	\$72.36	\$5,441,074
42 <i>Indirect Costs (Excluding Impact Fees) as Percentage of Direct Costs</i>				25%
43 Financing				
44 Interest	4.5% int rate and 65% LTC			\$304,701
45 Financing Fees	2.0% of loan amount			<u>\$270,846</u>
46 Total Financing Costs		\$9,592	\$7.65	\$575,547
47 Parking Construction Costs	\$15,000 all in costs per space	\$30,000	\$23.94	\$1,800,000
48 Net Costs before Land and Profit		\$386,830	\$308.65	\$23,209,830
49 Project Profit	8%	\$30,946	\$24.69	\$1,856,786
50 Land Costs	\$12 per site sq. ft.	\$8,712		<u>\$522,720</u>
51 Total Costs & Profit		\$426,489	\$340.29	\$25,589,336
52 METRICS				
53 Total Residual Land Value				(\$2,447,084)
54 Residual Value per Unit				(\$36)
55 Residual Value per Site Sq. Ft.				(\$56)
56 Residual Value per Site Acre				(\$2,447,084)
57 Residual Value as % of Finished Real Estate Value				(11.5%)

condo_base

Notes

Many assumptions above are based on EPS's standard assumptions for pro formas based on our review of developer pro formas.

[1] Usable Open Space is additive to this adjustment. Gross to net accommodates common areas such as stairways and hallways, but not for usable open space requirements.

Table C-5
Salinas Housing Target Market Analyses
Use: High-Density For-Sale Residential Detached
Prototype: Single-Family Detached, High-Density. Up to 3 stories wood frame with garage in front or off alley (Type V).

**Attached
Townhouse/Rowhouse
Base Case
(RD-30)**

Item	Assumptions	Per Unit	Per Gross Bldg. Sq. Ft.	Total
1 DEVELOPMENT PROGRAM ASSUMPTIONS				
2 Site Area				43,560 Sq. Ft.
3 Total Units	30 DUAC			30
4 Market-Rate Units	100%			30
5 Avg. Market-Rate Living Square Feet	1,210 saleable sq. ft./unit			36,300
6 Avg. Market-Rate Garage Square Feet	400			12,000
7 Avg. Market-Rate Total Square Feet	1,610			48,300
8 REVENUE ASSUMPTIONS				
9 Resid. - Base Sales Revenue (Market Rate)	\$275 /saleable sq. ft.	\$332,750		\$9,982,500
10 (less) Marketing and Commissions	5.0% of gross sales			<u>(\$499,125)</u>
11 Net Sales Revenue		\$316,113	\$261.25	\$9,483,375
12 COST ASSUMPTIONS				
13 Direct Costs				
14 Basic site work	\$10 per site sq. ft.			\$435,600
15 Resid - Building Construction Cost [1]	\$126 per gross sq. ft.			\$4,573,800
16 Garage - Building Construction Cost [1]	\$41 per gross sq. ft.			<u>\$494,400</u>
16 Total Direct Costs		\$183,460	\$151.62	\$5,503,800
17 Indirect Costs				
18 Soft Costs				
19 Predevelopment	5.0% of direct costs			\$275,190
20 A&E	9.0% of direct costs			\$495,342
21 Pre-opening, marketing	1.5% of direct costs			\$82,557
22 Legal	1.0% of direct costs			\$55,038
23 Other Prof Services	1.0% of direct costs			\$55,038
24 Hard + Soft Cost Contingency	7.0% of direct costs + soft costs above this item			\$452,688
25 Real Estate Taxes	1.1% 12 months, construction + land value			\$84,204
26 Permit Costs	0.0% of direct costs			\$0
27 Impact Fees	\$36,504 /unit			\$1,095,107
28 Development Fee	3.0% of direct + soft costs			<u>\$242,969</u>
29 Total Indirect Costs		\$94,604	\$78.19	\$2,838,132
30 <i>Indirect Costs (Excluding Impact Fees) as Percent of Direct Costs</i>				32%
31 Financing				
32 Interest	4.5% int rate and 65% LTC			\$122,001
33 Financing Fees	2.0% of loan amount			<u>\$108,445</u>
34 Total Financing Costs		\$7,682	\$6.35	\$230,446
35 Net Costs before Land and Profit		\$285,746	\$236.15	\$8,572,378
36 Project Profit	8%	<u>\$22,860</u>	<u>\$18.89</u>	<u>\$685,790</u>
37 Land Costs	\$12 per site sq. ft.	\$17,424		\$522,720
38 Total Costs & Profit		\$326,030	\$269.45	\$9,780,888
39 METRICS				
40 Total Residual Land Value				(\$297,513)
41 Residual Value per Unit				(\$9,917)
42 Residual Value per Site Sq. Ft.				(\$7)
43 Residual Value per Site Acre				(\$297,513)
44 Residual Value as % of Finished Real Estate Value				(3.0%)

"townhome_base"

Notes

Many assumptions above are based on EPS's standard assumptions for pro formas based on our review of developer pro formas. Sources for selected assumptions are below.

[1] Based on EPS prior work experience, with feedback from project architects on similar analyses.

Table C-6
Salinas Housing Target Market Analyses
Use: High-Density For-Sale Residential Detached
Prototype: Single-Family Detached, High-Density. Up to 3 stories wood frame with garage in front or off alley (Type V).

**Attached
Townhouse/Rowhouse
Adjusted
(RD-30)**

Item	Assumptions	Per Unit	Per Gross Bldg. Sq. Ft.	Total
1 DEVELOPMENT PROGRAM ASSUMPTIONS				
2	Site Area			43,560 Sq. Ft.
3	Total Units	30	DUAC	30
4	Market-Rate Units	100%		30
5	Avg. Market-Rate Living Square Feet	1,080	saleable sq. ft./unit	32,400
6	Avg. Market-Rate Garage Square Feet	280		8,400
7	Avg. Market-Rate Total Square Feet	1,360		40,800
8 REVENUE ASSUMPTIONS				
9	Resid. - Base Sales Revenue (Market Rate)	\$300	/saleable sq. ft.	\$9,720,000
10	(less) Marketing and Commissions	5.0%	of gross sales	<u>(\$486,000)</u>
11	Net Sales Revenue			\$9,234,000
12 COST ASSUMPTIONS				
13 Direct Costs				
14	Basic site work	\$10	per site sq. ft.	\$435,600
15	Resid - Building Construction Cost [1]	\$126	per gross sq. ft.	\$4,082,400
16	Garage - Building Construction Cost [1]	\$41	per gross sq. ft.	\$346,080
16	Total Direct Costs			\$4,864,080
17 Indirect Costs				
18 Soft Costs				
19	Predevelopment		5.0% of direct costs	\$243,204
20	A&E		9.0% of direct costs	\$437,767
21	Pre-opening, marketing		1.5% of direct costs	\$72,961
22	Legal		1.0% of direct costs	\$48,641
23	Other Prof Services		1.0% of direct costs	\$48,641
24	Hard + Soft Cost Contingency		7.0% of direct costs + soft costs above this item	\$400,071
25	Real Estate Taxes		1.1% 12 months, construction + land value	\$74,417
26	Permit Costs		0.0% of direct costs	\$0
27	Impact Fees	\$31,200	/unit	\$936,000
28	Development Fee		3.0% of direct + soft costs	<u>\$213,773</u>
29	Total Indirect Costs			\$2,475,475
30	<i>Indirect Costs (Excluding Impact Fees) as Percent of Direct Costs</i>			32%
31 Financing				
32	Interest		4.5% int rate and 65% LTC	\$107,341
33	Financing Fees		2.0% of loan amount	<u>\$95,414</u>
34	Total Financing Costs			\$202,755
35	Net Costs before Land and Profit			\$7,542,310
36	Project Profit	8%		<u>\$603,385</u>
37	Land Costs	\$12	per site sq. ft.	\$522,720
38	Total Costs & Profit			\$8,668,415
39 METRICS				
40	Total Residual Land Value			\$565,585
41	Residual Value per Unit			\$18,853
42	Residual Value per Site Sq. Ft.			\$13
43	Residual Value per Site Acre			\$565,585
44	Residual Value as % of Finished Real Estate Value			5.8%

"townhome_adj"

Notes

Many assumptions above are based on EPS's standard assumptions for pro formas based on our review of developer pro formas. Sources for selected assumptions are below.

[1] Based on EPS prior work experience, with feedback from project architects on similar analyses.