

**PROJECT JUSTIFICATION**

10 July 2017

**Justification 1: Economic Viability of the Existing Building and Site for Office/R&D Uses**

The applicants share the view of elected officials, city staff, and members of the Finance and Budget Commission that the City faces a long term financial challenge that, while less immediate than its housing needs, represents a significant civic imperative. This raises the question, could the existing building be restored in line with the owner's original objective in acquiring the building and be used to attract corporate research and development users that could add to the economic base of Davis? If not, could the site be rezoned from its existing highway commercial designation and developed without the building for the same purpose?

Marketing research efforts of the owner during the last two-and-one-half years, supplemented by efforts of city and regional economic development authorities, have tested this question as have four analyses of the economic viability of the building and site for office/R&D use (see Appendix 1: Development History of the Site). Culminating in the 2017 EPS study<sup>1</sup>, each of these has concluded that the site is not viable for office/R&D uses.

Taken together, this body of evidence explains why there has been a substantial inventory of land already zoned for office/R&D or business park that has gone undeveloped in Davis. This includes at least 20 acres in South Davis that share the same adjacency to I-80 as the site but are closer to the Richards Blvd. exit, to downtown Davis and to UC Davis. Those parcels zoned for office/R&D purposes have stood undeveloped since the 1987 South Davis Specific Plan. Office/R&D facilities on those sites would not suffer from the same isolation cited by UC Davis as one of two reasons for vacating the site, and further cited in the 2015 study and the 2017 EPS report as a liability of developing 3820 Chiles Road for office/R&D use. EPS estimates that current inventory of vacant land for Office and R&D/Flex uses will meet demand for the next 43 to 69 years.<sup>2</sup> This compares to a negligible inventory of Commercial Mixed Use land, a negligible inventory of land zoned for ownership housing and zero inventory of undeveloped land zoned for apartments.

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<sup>1</sup> Economic & Planning Systems, Inc., *Site Evaluation for 3820 Chiles Road, Davis* (EPS#162128) March 10, 2017.

<sup>2</sup> *Ibid*, p. 12. The supply of "shovel-ready" vacant land suitable for office/R&D uses is estimated to represent 15 to 23 years' absorption. Note that 3820 Chiles Road is not shovel-ready for office/R&D use due to its CMU zoning and the need to demolish the existing building.

EPS also assessed the viability of the site for retail purposes and concluded that such a use is not financially feasible.<sup>3</sup> The indicated magnitude of the subsidy required for retail development of the site, for example in the form of relief from building fees and property taxes, is \$1.9 million without allowance for land costs. Consistent with the experience of the applicant over the past two-and-one-half years, commercial real estate brokers interviewed by EPS reported no recent expressions of interest about locating in Davis among automobile or recreational vehicle dealers.

Finally, ESP analyzed the viability of the proposed rental and ownership residential project. The economic model that found the first three land use scenarios infeasible projected for the residential scenario positive residual land values that exceed the current value of the land as determined by comparable sales. This is a fundamental indicator of financial viability. Turning to nonfinancial factors, the report documents:

1. the “current severe rental housing shortage”;
2. the small percentage of market rate apartments built for nonstudents; and
3. the appropriateness of the site for nonstudent housing.

The only land use identified by EPS as viable was the residential scenario.

## **Justification 2: The Community Need for Non-Student or Workforce<sup>4</sup> Housing**

In addition to the market tests and feasibility studies referred to above, the applicants have spent two years in conversation about community needs with a broad set of civic leaders, city staff, other planning professionals, real estate and finance experts, developers, growth opponents and, importantly, project neighbors. In addition, they retained a consultant to formally analyze the Davis rental housing market based on hard economic data and insights she gained from visits to existing facilities and interviews with facilities managers. Finally, the applicants with assistance from another marketing consultant have assessed the extent to which the Davis rental housing market meets the needs of local employees by meeting with employers and surveying employees. Conclusions follow.

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<sup>3</sup> *Ibid*, pp. 20,23-24.

<sup>4</sup> In what follows, references to “students” and “non-students” or, equivalently, “members of the workforce,” involve unavoidable generalizations about sub-groups of Davis residents. In its usage here “students” contemplates single undergraduates in Davis for the completion of a degree while “non-students” or, “members of the workforce” represents a more heterogeneous grouping embracing single or coupled residents with or without children who are not in Davis to study. These are not mutually exclusive groupings. Graduate students with university employment and families and undergraduates who work full-time come immediately to mind, and, no doubt, the residential community we propose will be attractive to some referred to here as “students.” Nevertheless, this imperfect taxonomy is useful in posing previously ignored questions about housing needs of an important sector of our community and how those needs have been planned for in land use decisions.

Rental Housing Shortage: In recent years there has developed widespread if not universal agreement that housing is the most pressing community need and that this need will persist even if the University performs on its commitment to house 90 or 100 percent of student growth.

The Distinct Needs of Students and Non-students: What undergraduate students seek in rental housing differs from the needs of members of the workforce. Comprised most often of multiple unrelated individuals, student households are more apt to be comfortable in apartments with as many as five smaller one person bedrooms. Workforce households, in contrast, tend to be smaller and require fewer bedrooms per unit, one of which is often a larger master bedroom with adjoining bath.

Use of common areas in apartment houses also differs with students favoring study space, gyms and pools whereas many non-student households would prefer tot-lot play areas and nearby or on-site childcare.

Needs also vary between students and non-students as to the terms of lease contracts. Tied to the academic calendar, students generally prefer leases beginning in the Fall while non-students have no such need but are usually compelled to accept this convention though their needs might otherwise dictate.

Housing market professionals subscribes to the generalization that students as a group are more budget-minded in seeking accommodation.

Student and workforce lifestyles are often different and conflicting with non-students generally preferring a quieter environment, less night life, and earlier mornings. As a result, many students prefer to locate with other students and many non-students with other non-students. The sometimes-conflicting lifestyles between students and nonstudents have been recognized as serious quality of life issues by the Planning Commission and City Council where they arise in single family home neighborhoods populated with student rental homes and single family home neighborhoods adjoining fraternities and sororities. There is every reason to believe that those quality of life issues are more pervasive, if less visible, in densely populated, common-wall apartments.

Finally, students, in general, seek proximity to campus, their daily destination, and to Unitrans, on which they are more dependent. Non-student residents are more apt to seek other adjacencies, for example to pre-schools, K-12 schools, places of employment outside the university, freeway entrances, and regional transit.

The Primacy of Student Demand in the Davis Multi-family Housing Market. Notwithstanding the distinct needs of non-students, there is a shared view that for more than a decade the Davis rental housing market has been student-driven favoring, for example, larger units with four and five bedrooms that rent separately rather than one bedroom units or two and three bedroom units with one master bedroom that might better meet the needs of couples and families. Apartment developers respond to student demand rather than non-student demand due to economic reality: Four or more

single undergraduates can pay more in rent than a non-student individual, couple or family. The propensity to provide housing for students over non-students is reinforced by the City’s affordable housing formula under which four and five bedroom apartments bear the same obligation as one, two and three bedroom units suited to non-students.

Production of Multi-family Housing: While there is a general understanding that needs of non-students have taken third place in the planning of multi-family housing, the actual figures are startling. Data presented by EPS indicate that 95 percent of 1186 rental living units built between 2005 and 2017 are restricted to student or low income renters.<sup>5</sup> Moreover, of the 56 market rate units built in this period, 31 were four bedroom units, a rental housing product designed for students. Thus, it is fair to say that only 25 units, two percent of the apartments built in the last 12 years, were market rate units meeting the needs of Davis residents who are neither students nor of low income.

Looking forward, the two pending apartment projects, Sterling Fifth Street and Lincoln40, promise to provide 435 units for students and low income residents (including affordable units funded with in lieu fees) but no market rate apartments are being built for members of the workforce who do not qualify for low income housing. None whatsoever.

Dissatisfaction with the Stock of Rental Housing. Survey work underway by the applicants designed to identify what workers employed in Davis seek in rental housing also inquired about levels of satisfaction. Preliminary results indicate that about one-third of responding employees who rent are “extremely dissatisfied” with another third “dissatisfied” with housing choices available to them.

In a series of ongoing personal interviews conducted by the applicants, employers ranging from the president of a 90-year-old family owned retail firm to the co-founder of a 250 employee technical service firm uniquely headquartered in Davis with 10 branch offices cite housing as a significant impediment to recruitment and retention of employees.

A proprietary analysis of the Davis rental market prepared by Susan L. State for the applicants bears out the key finding that rental choices fall short of workforce needs and adds particulars. Because no market rate housing for the general population has been built in more than a decade, housing choices are dated relative to what is available in other markets. In particular, the Davis market is devoid of the kind of apartment that attracts millennials, other working professionals, and down-sizing seniors throughout the Bay Area and in other thriving metropolitan areas. This product, designed largely to meet the longer term needs of a generation of young professionals who have record low home ownership rates, is newer and of larger size, greater density and higher amenity with fewer bedrooms than the representative Davis rental unit, most of which were designed to provide more basic shelter for students at a transitional stage in their lives, many of them sharing space with roommates.

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<sup>5</sup> *Ibid*, p. 16.

The reality is that non-student renters—including the young professionals required by the employers the city seeks in an effort to broaden its economic base—have little choice other than to locate among undergraduates in complexes designed for undergraduates at rents driven by the ability of four or more undergraduates to pay for what some see as off-campus mini-dorms. That ignores the different needs and often conflicting lifestyles of undergraduates and other residents.

Said another way, long-term residents of Davis who are members of the workforce have become residual claimants in a housing stock planned to meet the needs of an important and vibrant but transient group, students.

Vocal is the criticism of the University for not producing more housing for students but where are the champions of long-term Davis residents? The City is uniquely positioned to use its land use authority to encourage housing that meets the distinct needs of ordinary people, often permanent residents who live and work but don't study in Davis.

### **Justification 3: Proximity and Bicycle Connectivity of the Site to Economic Development Hub**

Recognizing the need to provide conveniently located housing both to retain existing firms and to attract new ones, Figure 1 depicts the largest private employers in Davis who occupy office/R&D space as well as existing research parks, the 14 acre Meyer property designated for commercial development, and the proposed Mace Ranch Innovation Center. These sites of current and future employment are all located along the I-80 corridor, marking that area as the economic development hub in Davis. Each lies within a bicycle ride estimated by Google Maps to be 10 minutes or less from 3820 Chiles Road, which is linked to East Davis by the Dave Pelz I-80 bicycle over crossing. This kind of access would represent a significant advantage to employers seeking to recruit from the Bay Area, where daily commutes commonly run 45 minutes to an hour and require a car. Developing workforce housing on the proposed site would likewise represent a tangible way to advance the 2016-18 Council goals to drive a diverse and resilient economy and to pursue environmental sustainability. Conversely, because the site lies in the economic development hub devoting it to student housing or to income-qualified affordable housing, as has been done with neighboring South Davis parcels, would represent a missed opportunity.

### **Justification 4: Neighborhood Preservation: The La Vida Way Neighborhood**

Current zoning clearly envisages the project site as a part of the Chiles Road Commercial Corridor (Figure 2). In the absence of the rezoning sought in this application the default option is to subdivide the 7.4 acre parcel into as many as 30 lots offered for sale under the existing highway-commercial zoning. The La Vida Way neighborhood shares a 1200 foot frontage with the site. Single family houses could find themselves literally across the street from permitted uses like auto parts and building supply stores, auto and truck repairs, motorcycle sales, light manufacturing and small office buildings and conditional uses including gas stations, auto dealers, drive-through restaurants, motels, storage services, and moderate sized retail stores.

The proposed zoning, in contrast, envisages the site as a part of the existing La Vida Way residential neighborhood (Figure 3). It would put housing at the entrance to the neighborhood across from the existing single family homes to the west and adjacent to the preschool to the south. The conflict between highway oriented commercial zoning and existing residential land uses is significantly reduced. The present isolated stretch of residences along Chiles Road would expand from 600 feet to 1400 feet. This creates options for enhancing the residential character of the forty-year-old neighborhood. These include the possibility of introducing traffic calming measures along Chiles Road and a three way stop sign at La Vida Way as well as a landscaped median and pedestrian bulb-outs on La Vida Way to create a sense of entry into an otherwise poorly demarcated residential neighborhood.



Figure 1: Employment Centers and Bicycle Connectivity





Figure 2: Context Map Existing Zoning / Land Use

- LEGEND:**
- GENERAL COMMERCIAL
  - RESIDENTIAL HIGH DENSITY
  - RESIDENTIAL MEDIUM DENSITY
  - RESIDENTIAL LOW DENSITY
  - PARKS/ RECREATION
  - ZONING BOUNDARIES
  - LAND USE BOUNDARIES
  - PROJECT SITE

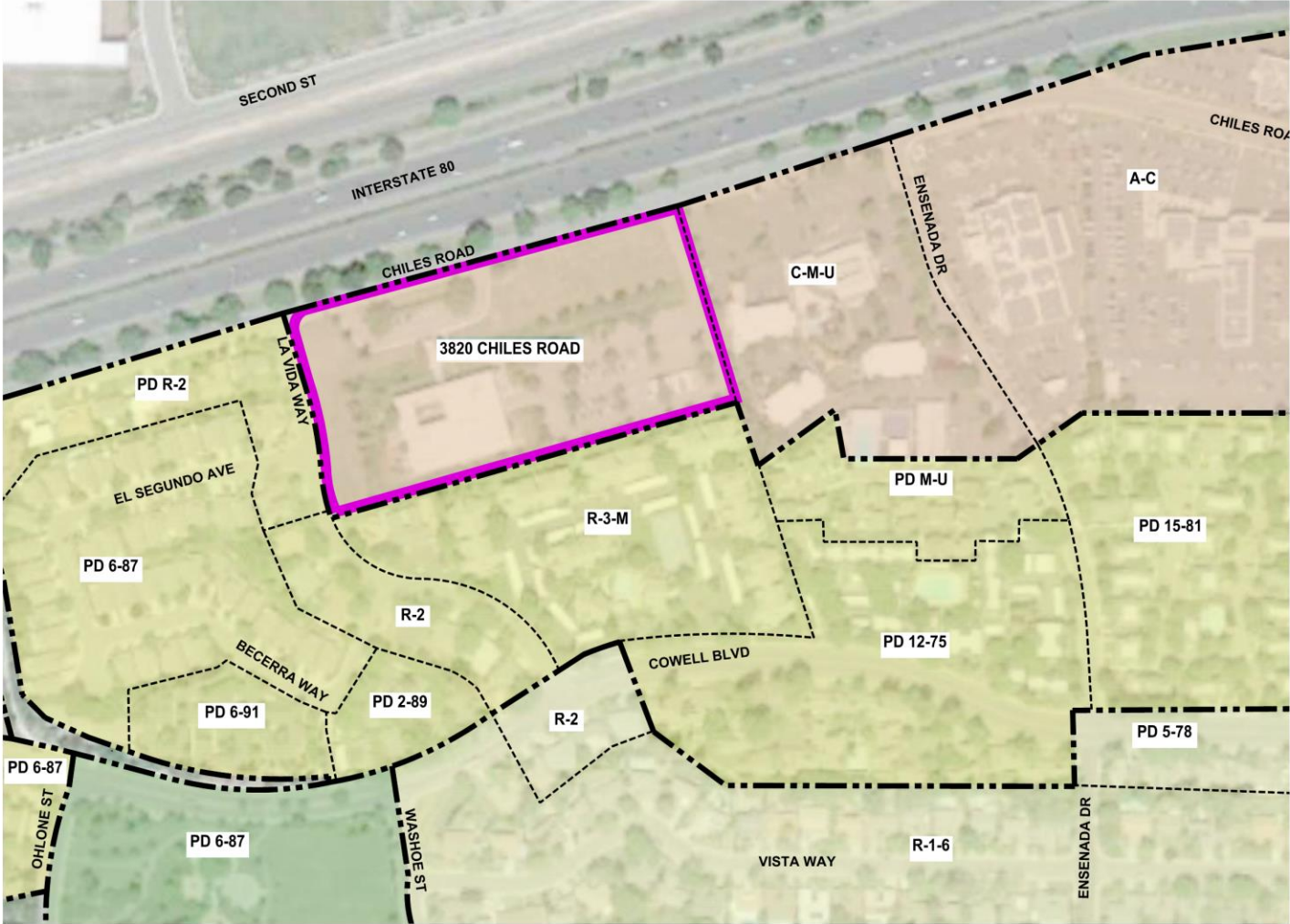




Figure 3A: Context Map Proposed Zoning / Land Use – Plan A

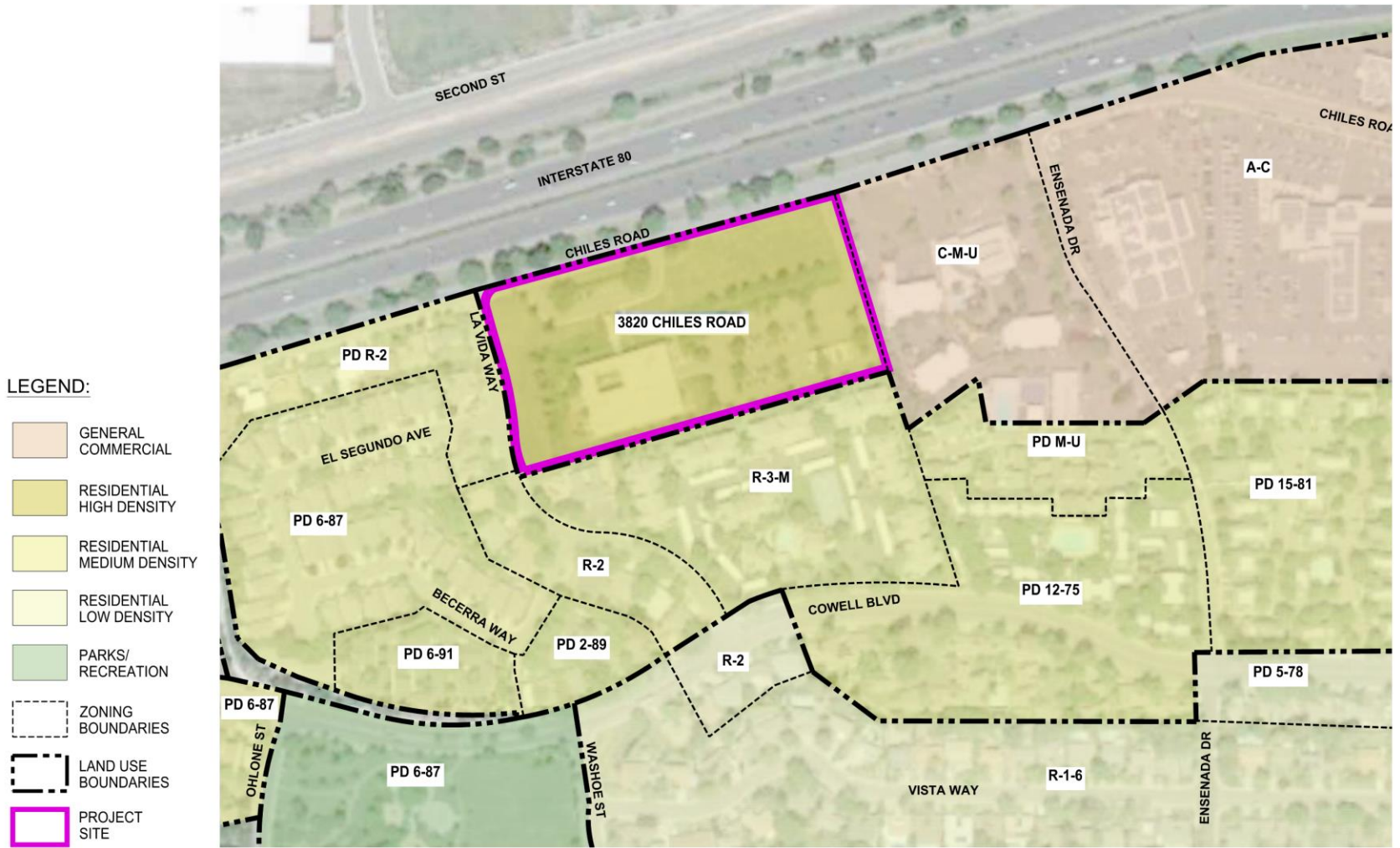


Figure 3B: Context Map Proposed Zoning / Land Use – Plan B

