



# DOWNTOWN HOUSING PLAN

## COMMUNITY WORKSHOP 2

June 18, 2025



with Strategic Economics | Consensus Building Institute  
W-Trans | CSW-ST2 | David J. Powers Associates





# AGENDA

1. Presentation (*20 mins*)
3. Small Group Activity (*50 mins*)
4. Report-Outs (*25 mins*)
5. Next Steps & Closing Remarks (*10 mins*)



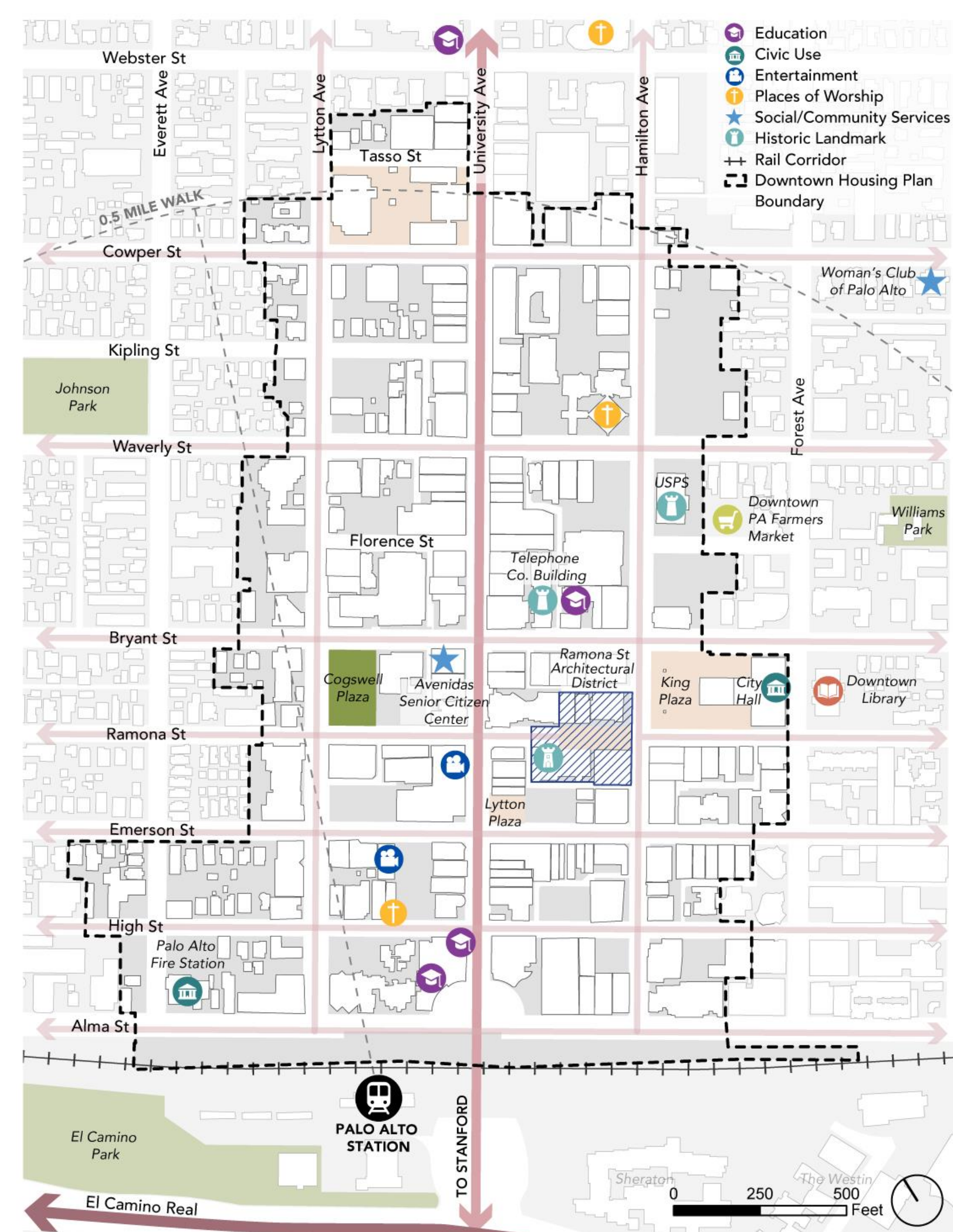


# WHAT IS THE DOWNTOWN HOUSING PLAN?

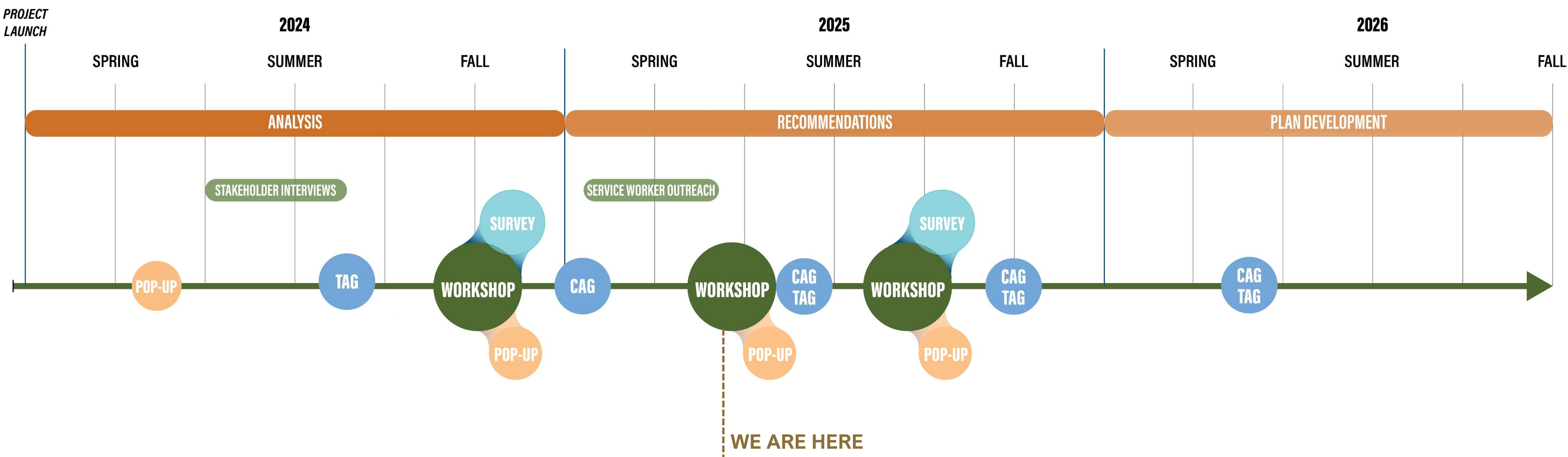
The Downtown Housing Plan is an area plan focused on increasing housing production in downtown Palo Alto.

The Objective of this Plan is:

1. **Implement the policies and programs** of the City's Comprehensive Plan and the 2023-2031 Housing Element.
2. Establish policies, development standards, and design standards to **make housing development more feasible** downtown.
3. **Plan for public infrastructure** necessary to accelerate housing production and promote fair housing.



# PROJECT UPDATE



● **406**  
COMMUNITY SURVEY  
RESPONSES

● **4**  
POP-UP  
BOOTHES

● **1,047**  
WEBSITE  
ENGAGEMENTS

● **21**  
STAKEHOLDER  
INTERVIEWS

● **25+**  
OPEN HOUSE  
ATTENDEES

● **25+**  
SERVICE WORKERS  
ENGAGED



# SUMMARY OF CONSTRAINTS FOR HOUSING IN THE PLAN AREA

## 1. High Cost of Real Estate

Land and development costs are much higher than in other areas.

## 2. Office Market Dominance

High office rents increase land values, making residential development unfeasible.

## 3. Small Parcel Size

Small, fragmented lots limit development potential and necessitate costly site assembly.

## 4. Development Standards

Height limits, FAR, setbacks, and ground-floor use restrictions limit housing options.

## 5. Parking Requirements and Costs

High parking costs and limited space discourage residential projects.

## 6. Limited Number of Parcels Available for Redevelopment



# WHY AND HOW WE ARE EXAMINING HOUSING DEVELOPMENT FEASIBILITY

- Captures developer perspective for whether and how housing can be produced
- Analyzed the financial performance of generalized mixed-use housing development “prototypes”
  - Prepared “pro forma” financial analyses
  - Reflects general local conditions for a hypothetical newly proposed project
  - Prototypes include current generally allowed amount of office space
- Results help inform policy decisions about ways to meet housing goals in Downtown Palo Alto





# FACTORS IMPACTING DEVELOPMENT FEASIBILITY

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Source: Turner Center



# WHEN IS A PROJECT FINANCIALLY FEASIBLE?

- Development projects are financially feasible **when revenues exceed project costs and investment return**
- Developers only build when projects are financially feasible
- Costs and revenues are dynamic
  - Several factors are beyond control of a city



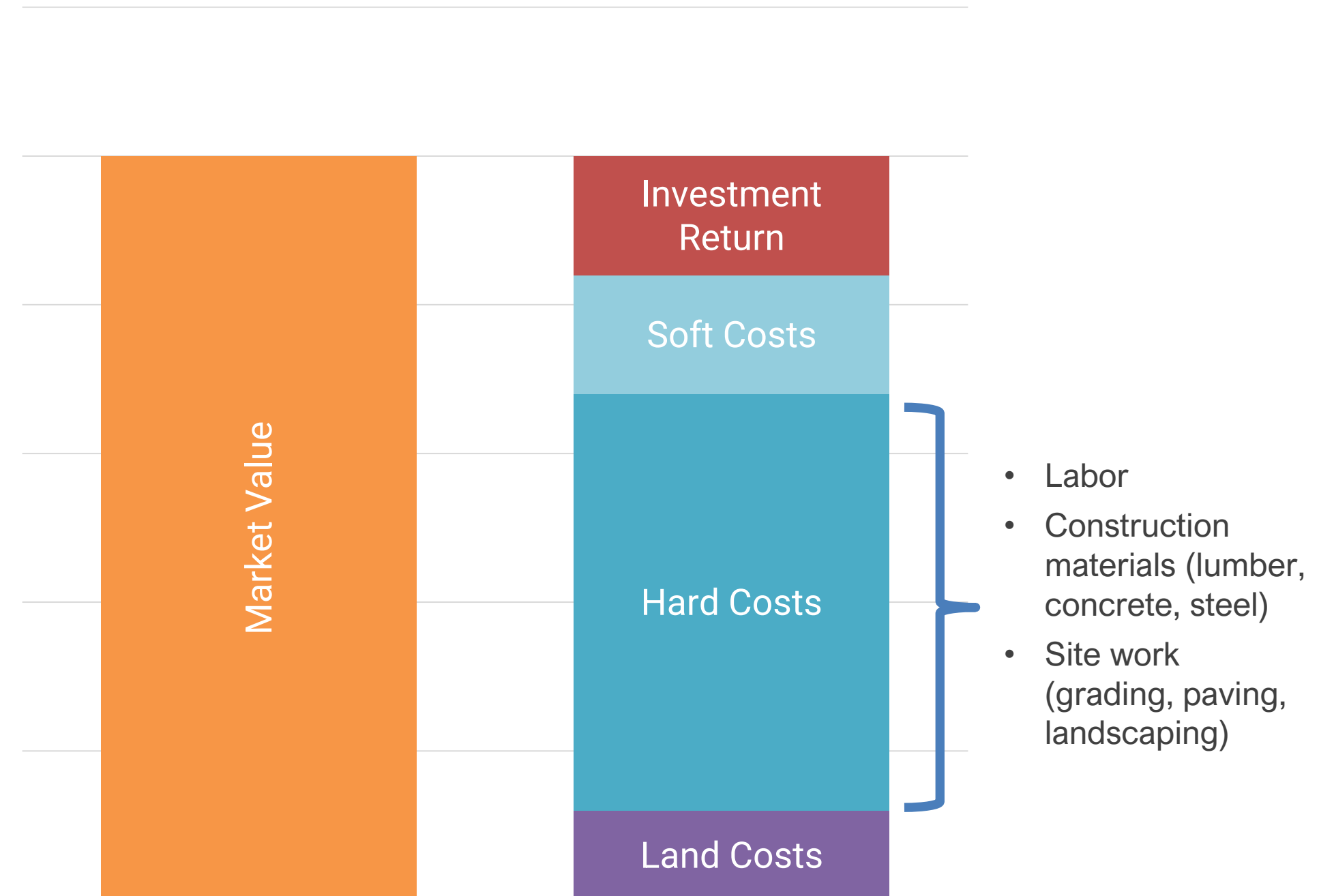
Source: Strategic Economics, 2025.



# PROJECT COSTS: HARD COSTS

- **Hard costs are the largest of project costs** and are associated with physical construction
- Includes construction of the building, parking, and other site improvements
- Typically "regional," but vary by building type
- Construction material and labor costs have been increasing
  - Increased 32% from May 2021 to May 2025, versus 19% national inflation

Sources:  
California Department of General Services, California Construction Cost Index, June 2025.  
U.S. Bureau of Labor Statistics, CPI Inflation Calculator, June 2025.

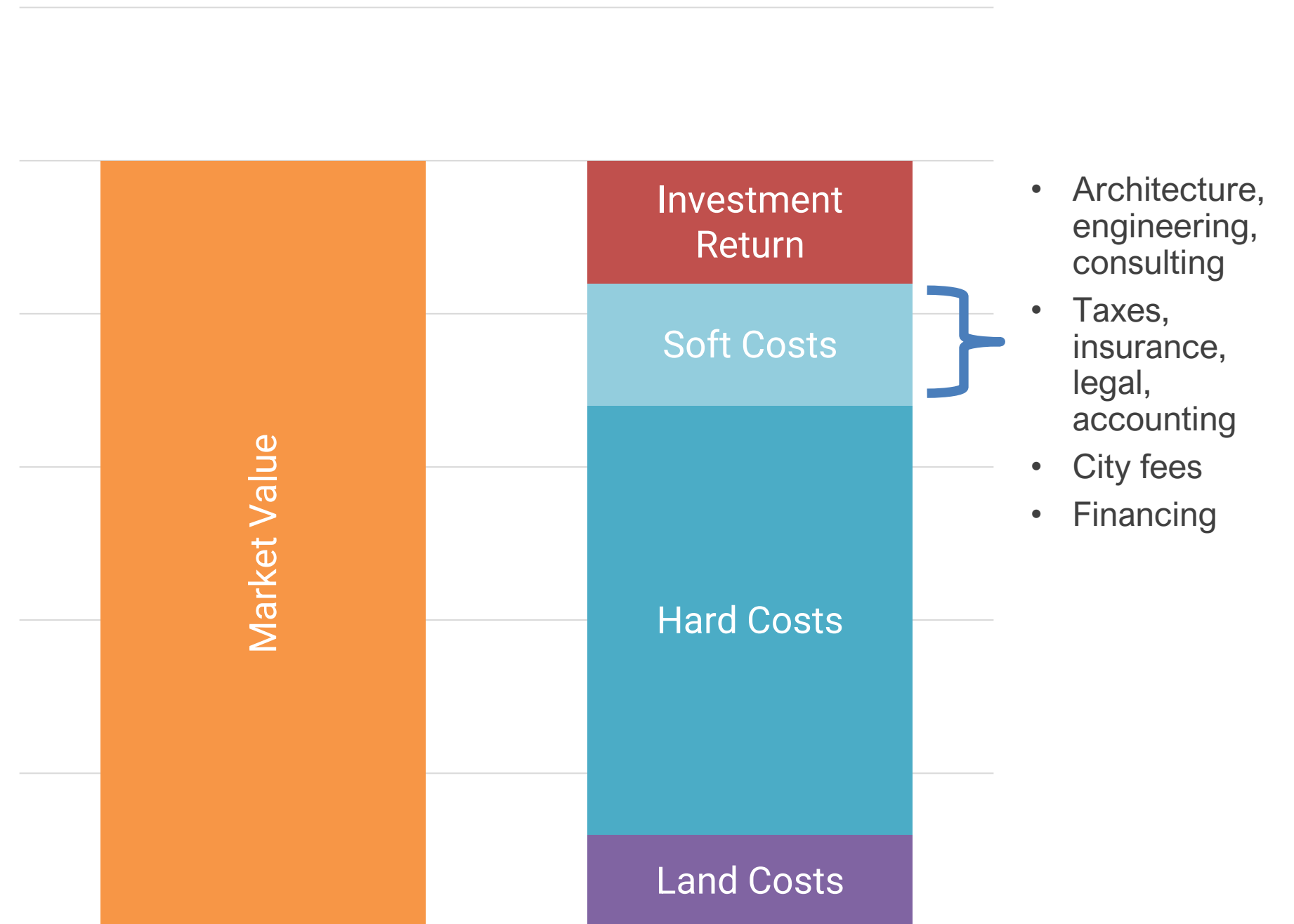


Source: Strategic Economics, 2025.



# PROJECT COSTS: SOFT COSTS

- Soft costs are typically the next largest project costs
- It includes costs associated with design, implementation, and other fees

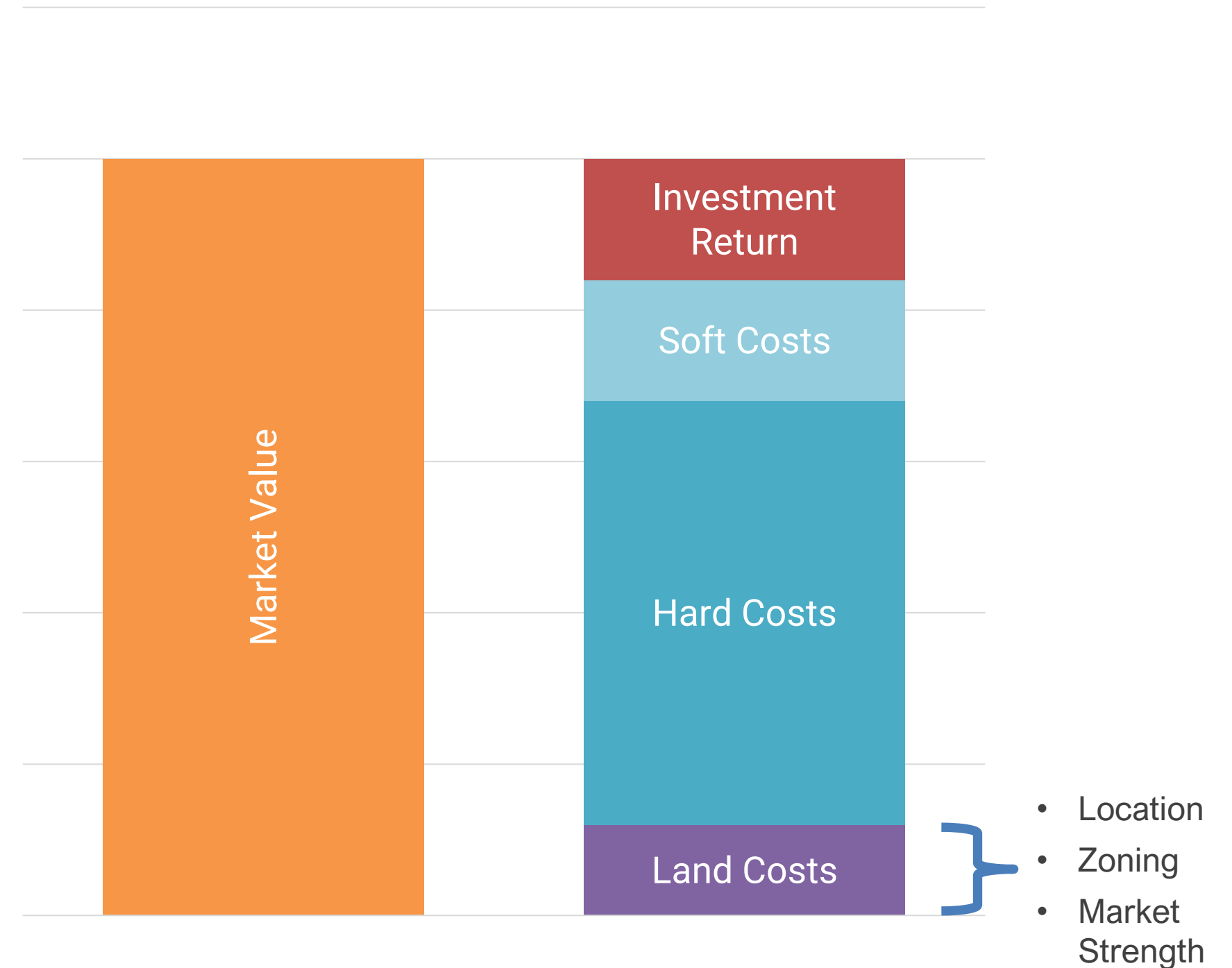


Source: Strategic Economics, 2025.



# PROJECT COSTS: LAND COSTS

- Land costs vary more than development costs
- Depend on:
  - Location
  - Zoned capacity for development
  - Market strength
  - Infrastructure
  - Condition of the land (need for remediation, etc.)
- Land costs are “residual”
- Value is based on what developers can afford to pay while delivering a feasible project within the site’s constraints and opportunities

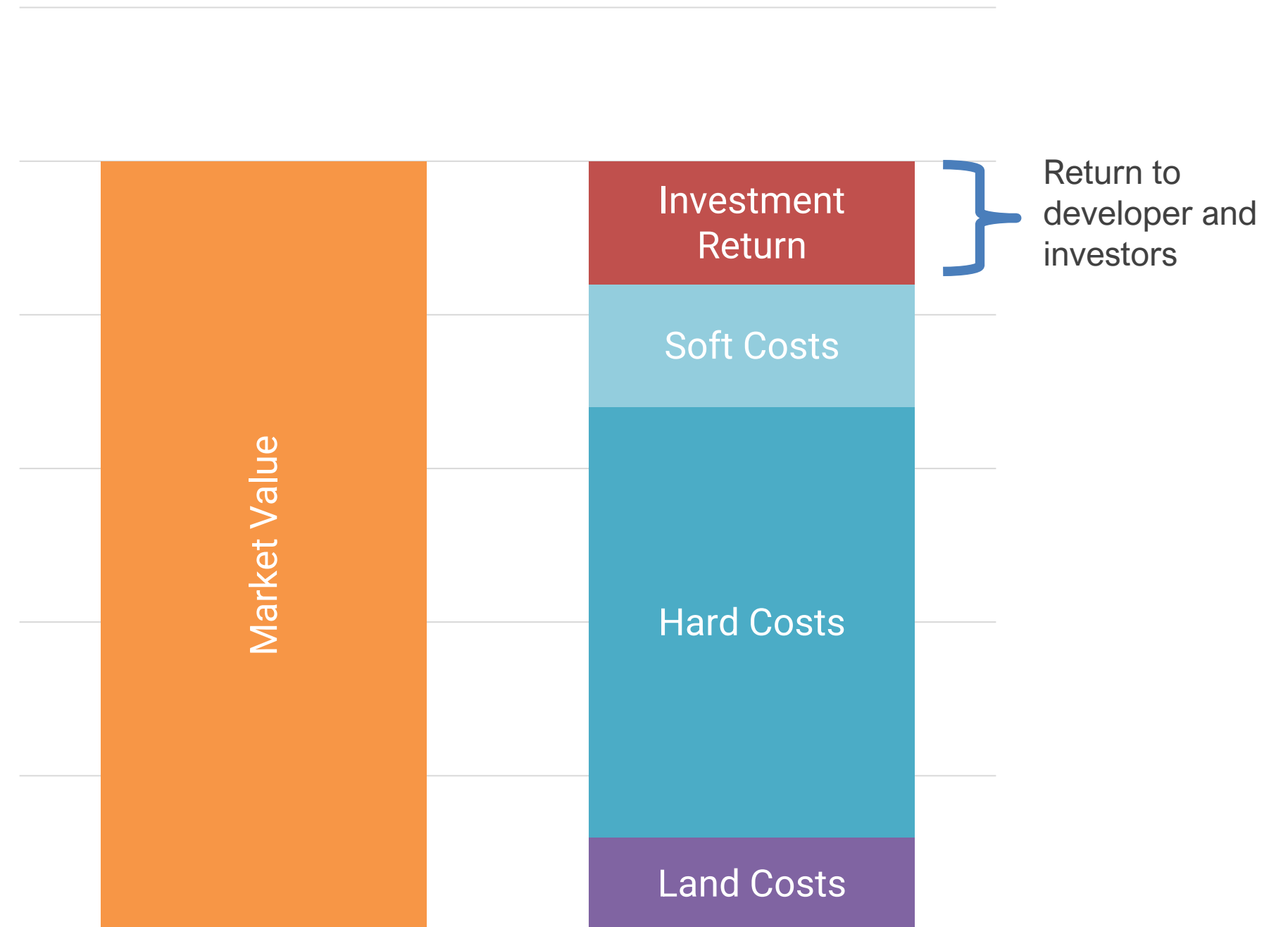


Source: Strategic Economics, 2025.



# PROJECT COSTS: INVESTMENT RETURN

- Developers decide to build projects based on the investment return
- Developers can secure project financing only when the investment return is competitive
- Required investment return varies based on project risks
- **Greater certainty reduces risk**

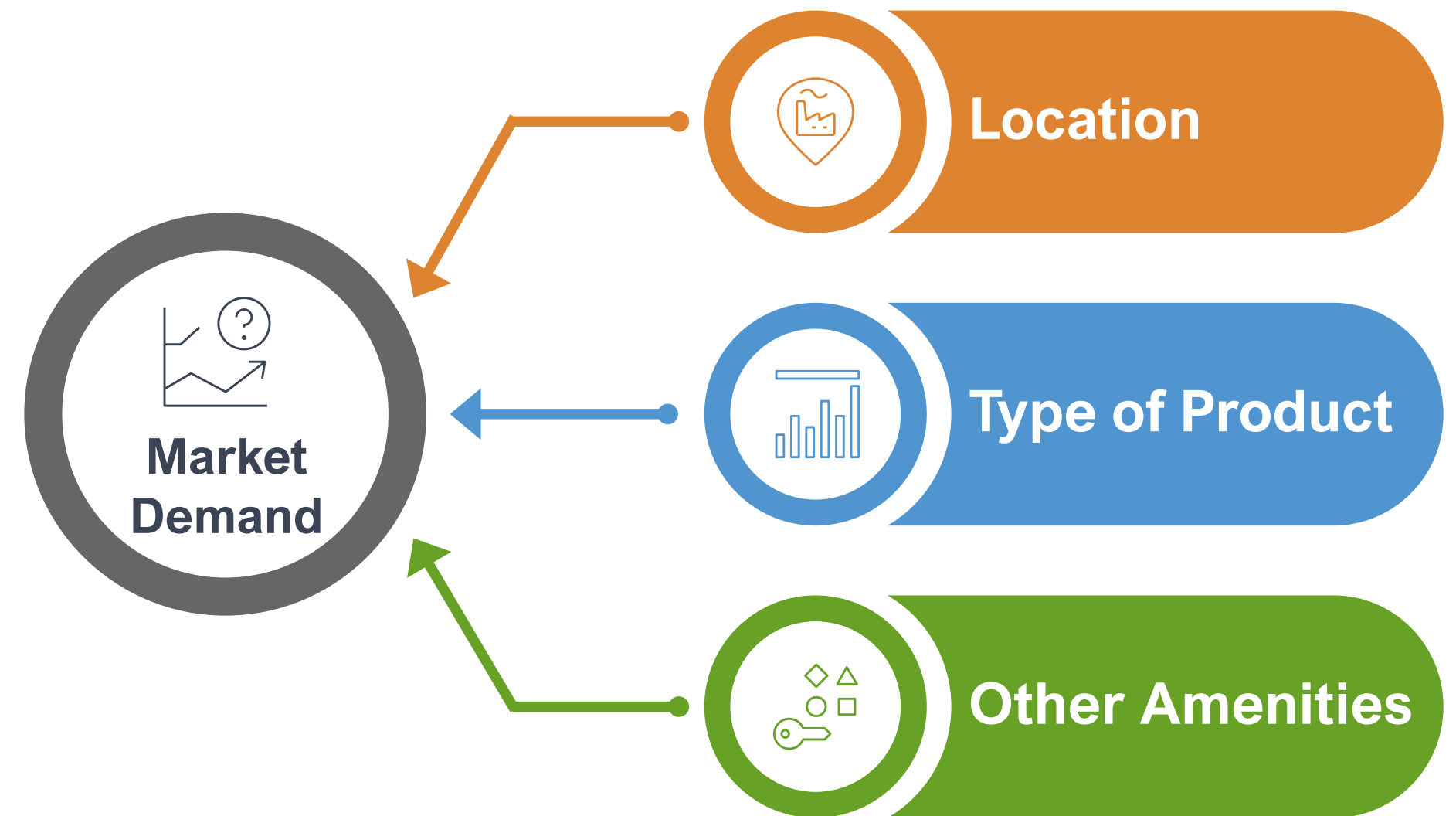


Source: Strategic Economics, 2025.



# MARKET DEMAND AND POTENTIAL REVENUE

- Market demand sets the “price” that buyers and renters are willing to pay
- This price is locally-driven
- Demand is based on many factors including:
  - Location,
  - Type of product, and
  - Other amenities in the area
- Mixed-use zoning broadens options but can create competition between uses
  - E.g., housing and office



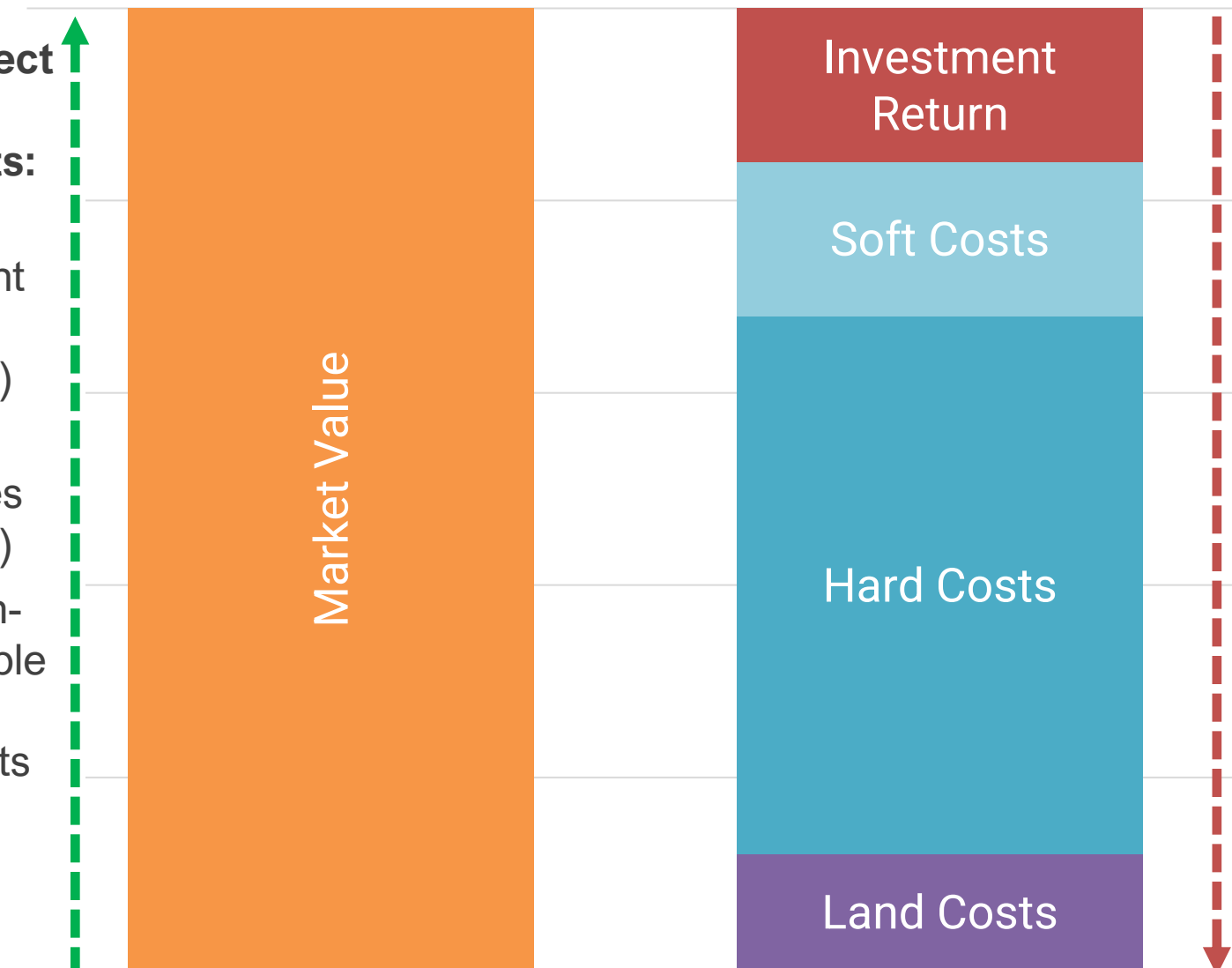


# CITIES CAN INFLUENCE (BUT NOT CONTROL) DEVELOPMENT FEASIBILITY OUTCOMES

- Policies and incentives can increase or decrease the feasibility of projects
- Example Policy Levers:
  - Parking ratios
  - Density/bulk controls (Floor Area Ratio, height, etc.)
  - Affordable housing requirements
- Example Incentives:
  - Reducing city fee requirements (reduces fee soft costs)
  - Density bonus (potentially increases value, but not always)
  - Streamlining of approvals (reduces financing/holding soft costs)

## Example Project Value Enhancements:

- Density or development intensity (sometimes)
- Flexible allowed uses (sometimes)
- Reduced on-site affordable housing requirements



## Example Cost Reductions:

- Reduced parking requirements
- Lower fees
- Streamlined approvals

Source: Strategic Economics, 2025.



# TEST SITES IN THE PLAN AREA



## 1. University Ave.

- **Mid-block** parcel on University Ave.
- Designated Housing Element (HE) Site.
- Zoning: CD-C (GF) (P)
- **Parcel Size:** 8,00 sq.ft. (0.18 acres)
- **Height Maximum:** 50'
- **Base FAR**  
Residential: 1.0 (3-7 units),  
1.25 (8-10 units)  
Non-Residential: 1.0



## 2. Waverly St.

- **Mid-block** parcel (narrow and long) with existing office.
- Adjacent to RM-40 parcel, next to the neighborhood.
- Zoning: CD-C (P)
- **Parcel Size:** 13,500 sq.ft. (0.31 acres)
- **Height Maximum:** 50'
- **Base FAR**  
Residential: 1.0 (3-7 units),  
1.25 (8-10 units)  
Non-Residential: 1.0

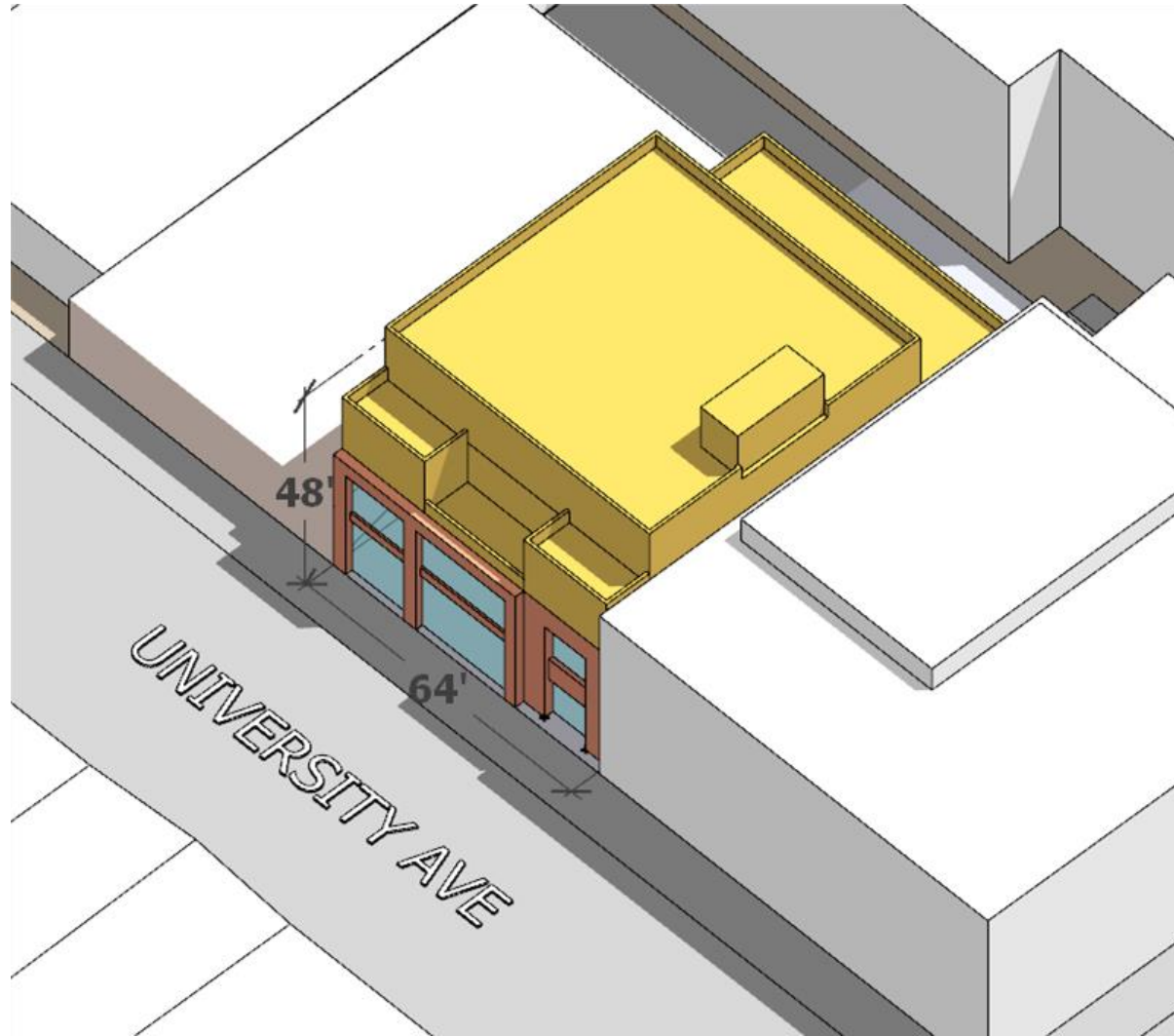


## 3. Hamilton Ave. & High St.

- **Corner lot** with same ownership and parcel assembly potential.
- 1 of the 3 parcels is a HE site.
- Block close to the Palo Alto station.
- Zoning: CD-C (P)
- **Parcel size:** 20,937 sq.ft. (0.48 acres)
- **Height Maximum:** 50'
- **Base FAR**  
Residential: 1.0 (3-7 units),  
1.25 (8-10 units)  
Non-Residential: 1.0

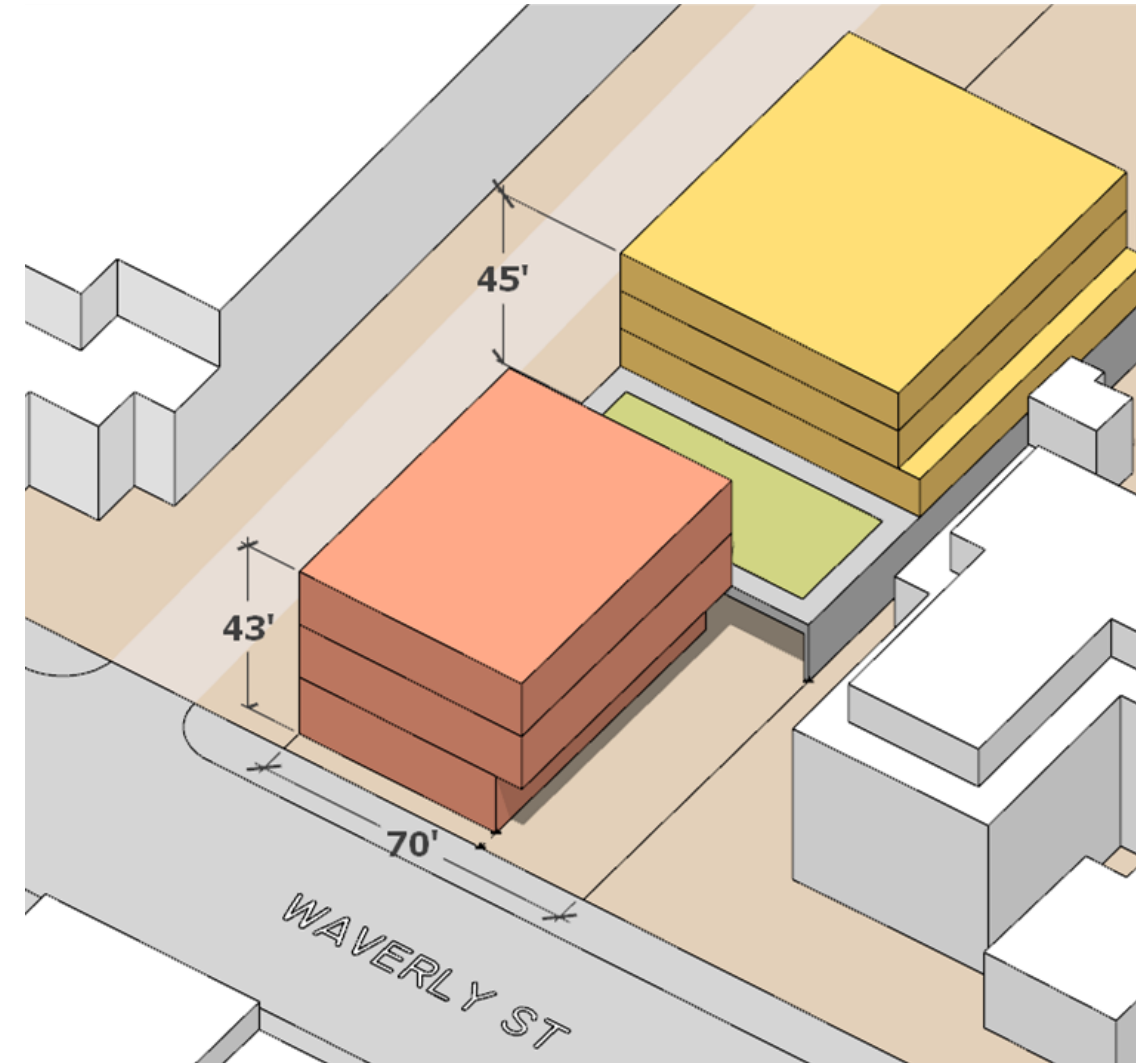


# MAXIMUM DEVELOPMENT POTENTIAL UNDER CURRENT ZONING



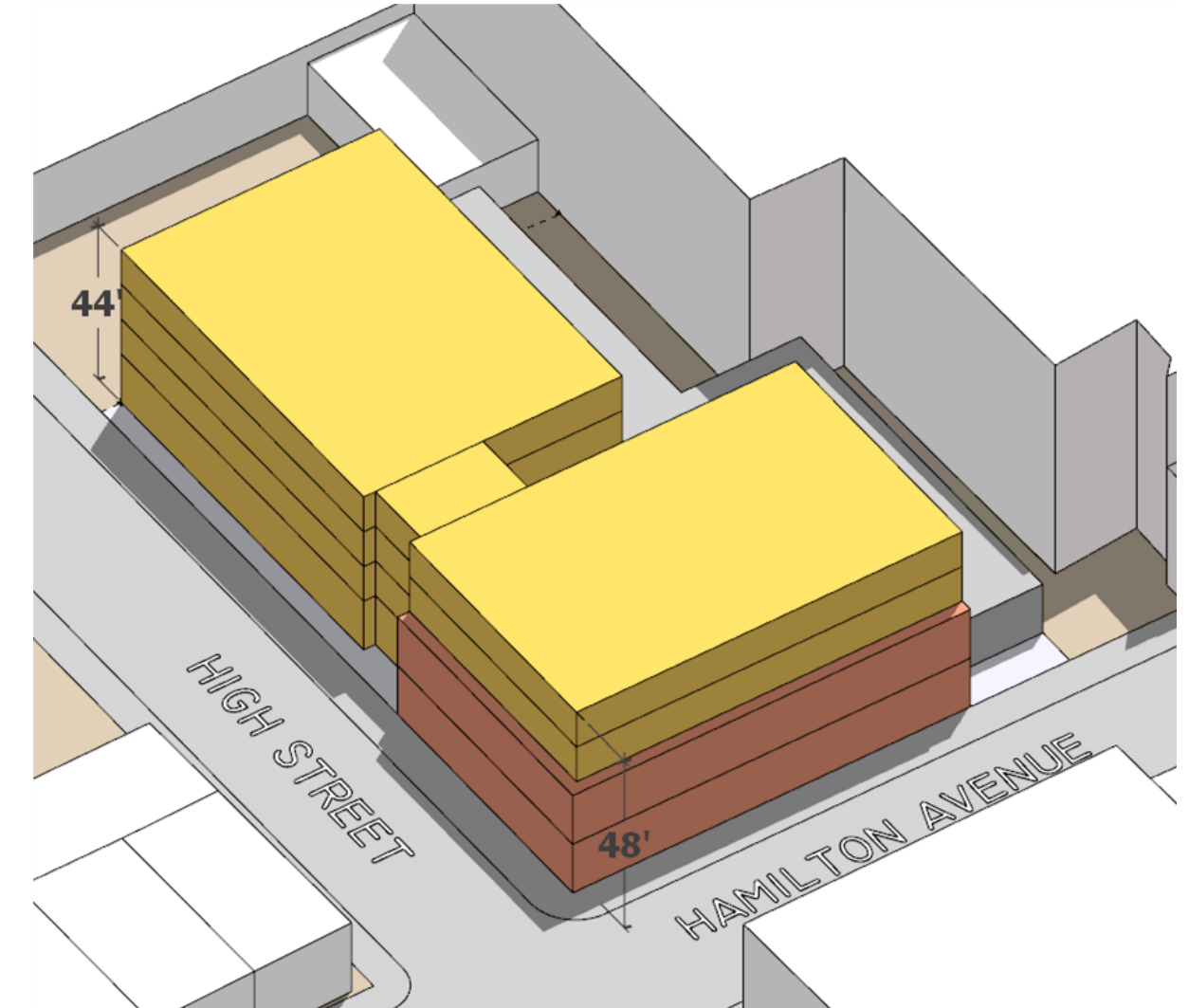
## 1. University Ave.

- Housing: 8 units
- Commercial: 8,000 sq.ft. (2 stories)
- Parking: 10 spaces at grade
- Height: 48' (4 stories)
- Available FAR: 2.25
- FAR Used: Total 1.9
  - Residential 0.9
  - Commercial 1.0
- Unused FAR : 0.33



## 2. Waverly St.

- Housing: 18 units
- Commercial: 10,200 sq.ft. (3-stories)
- Parking: 30 spaces at grade
- Height: Commercial 43' (3 stories)
- Height: Residential 45' (4 stories)
- Available FAR: 2.25
- FAR Used: Total 2.0
  - Residential 1.25
  - Commercial 0.75
- Unused FAR : 0.25



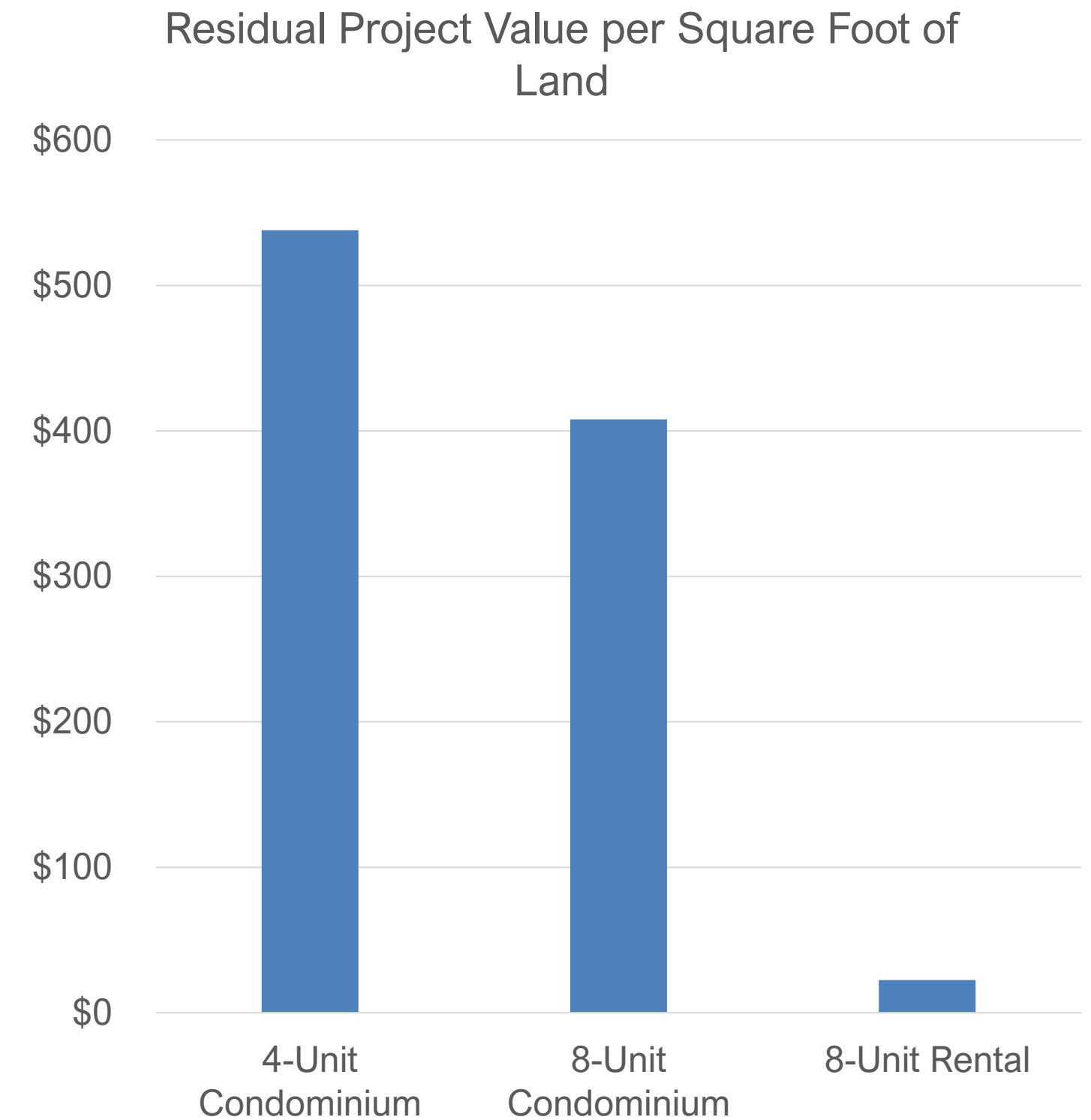
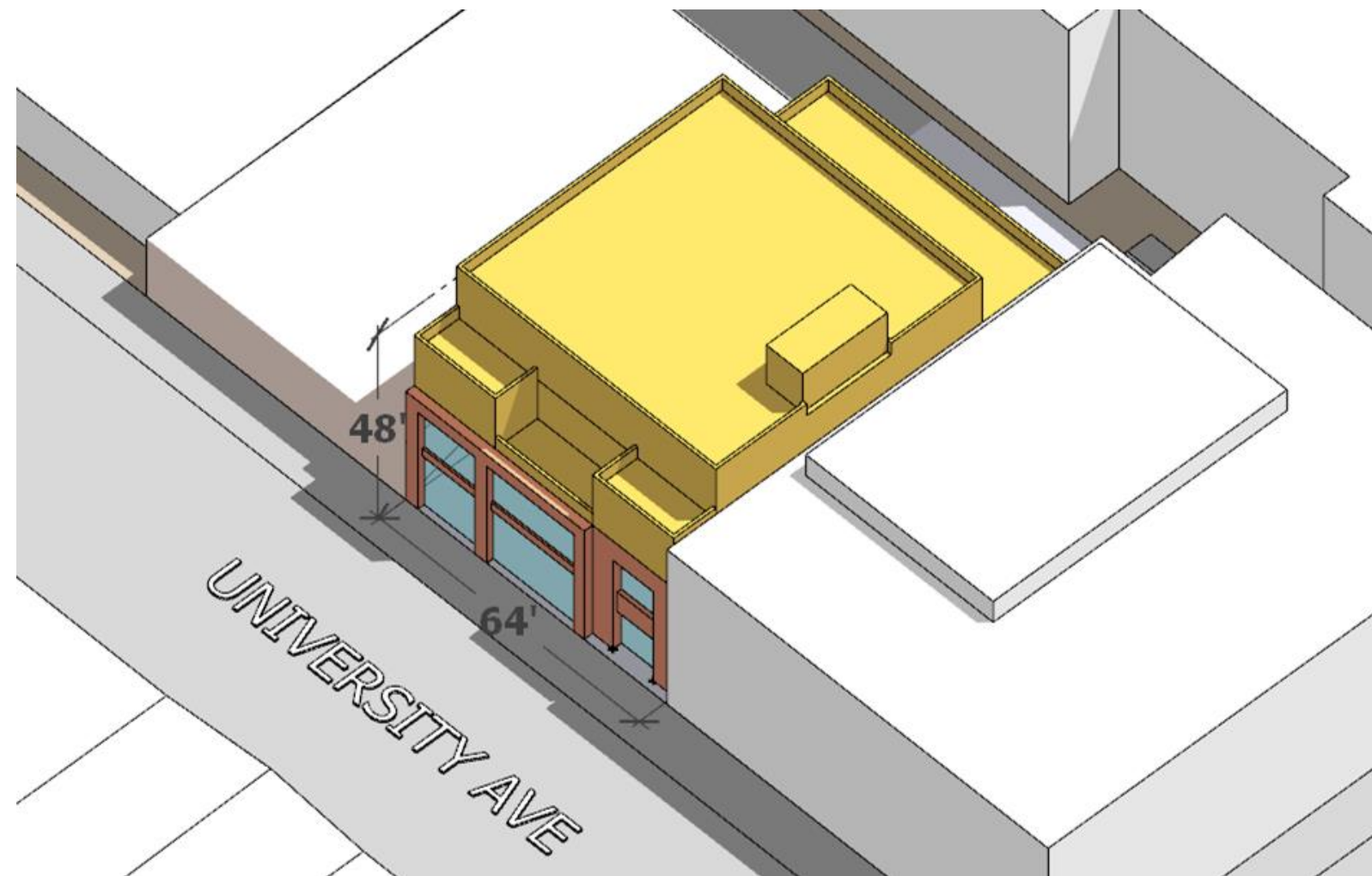
## 3. Hamilton Ave. & High St.

- Housing: 38 units
- Commercial: 12,500 sq.ft.
- Parking: 54 spaces below grade
- Height: Mixed-Use component 48' (4 stories)
- Height: Residential component 44' (4 stories)
- FAR Used: Total 2.25
  - Residential 1.25
  - Commercial 1.0
  - AHIP Residential 2.4



# FEASIBILITY OF A 4-STORY SMALL SITE

- Analyzed as higher/lower density ownership products and a rental product
- **Ownership products command high sales prices**, perform relatively well
- **Currently infeasible** under general current local conditions
  - Site acquisition costs of \$600+ per square foot

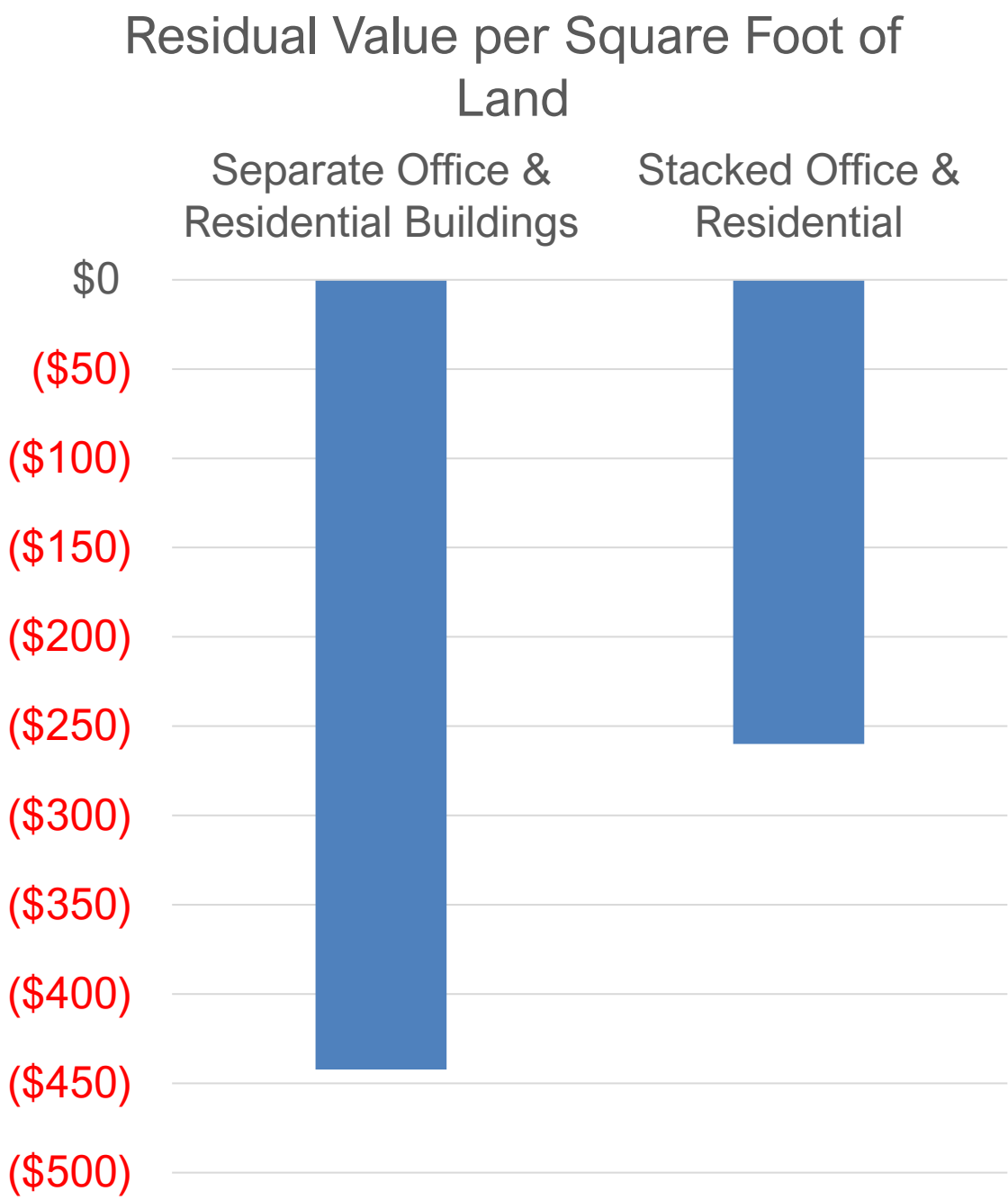
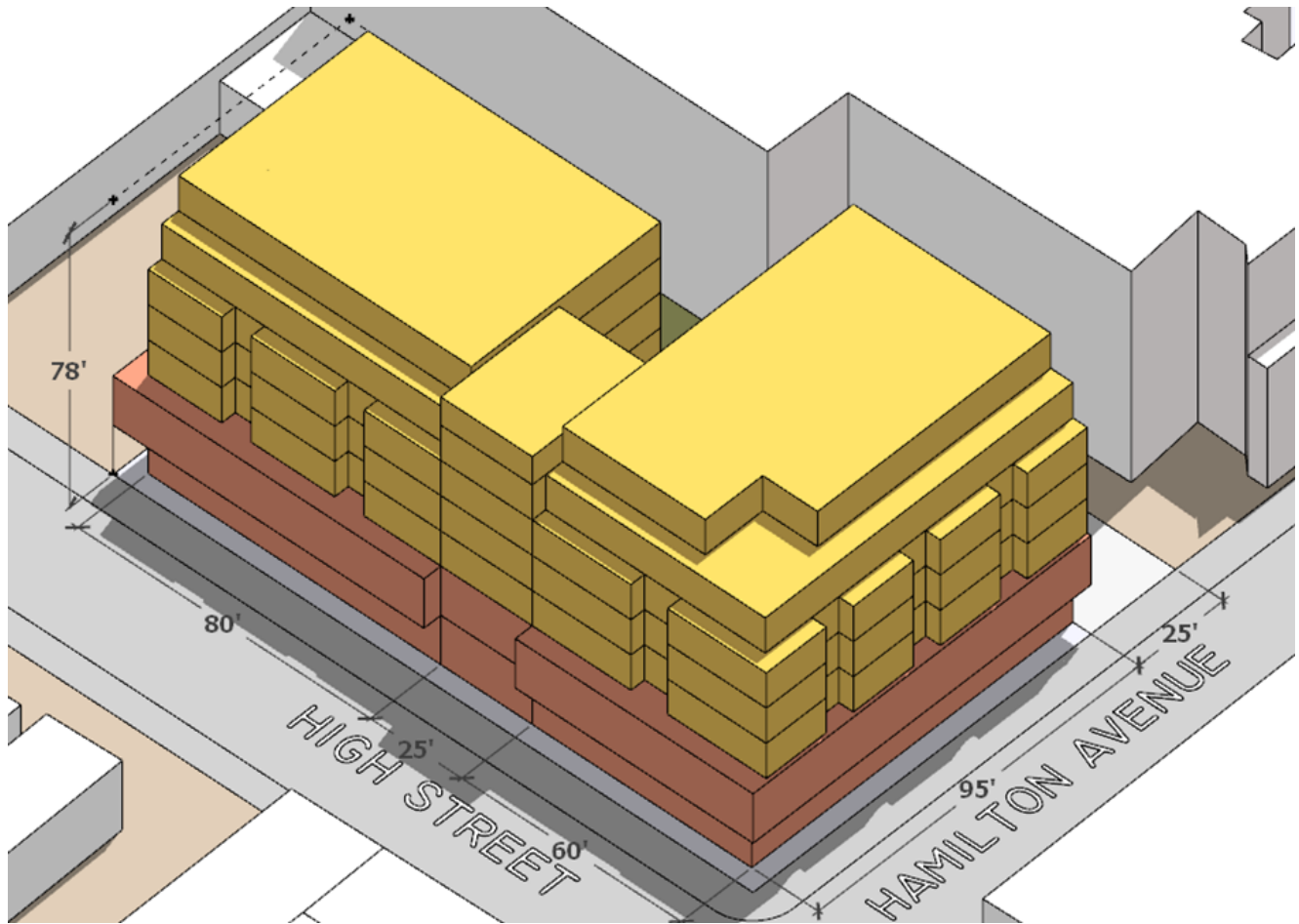
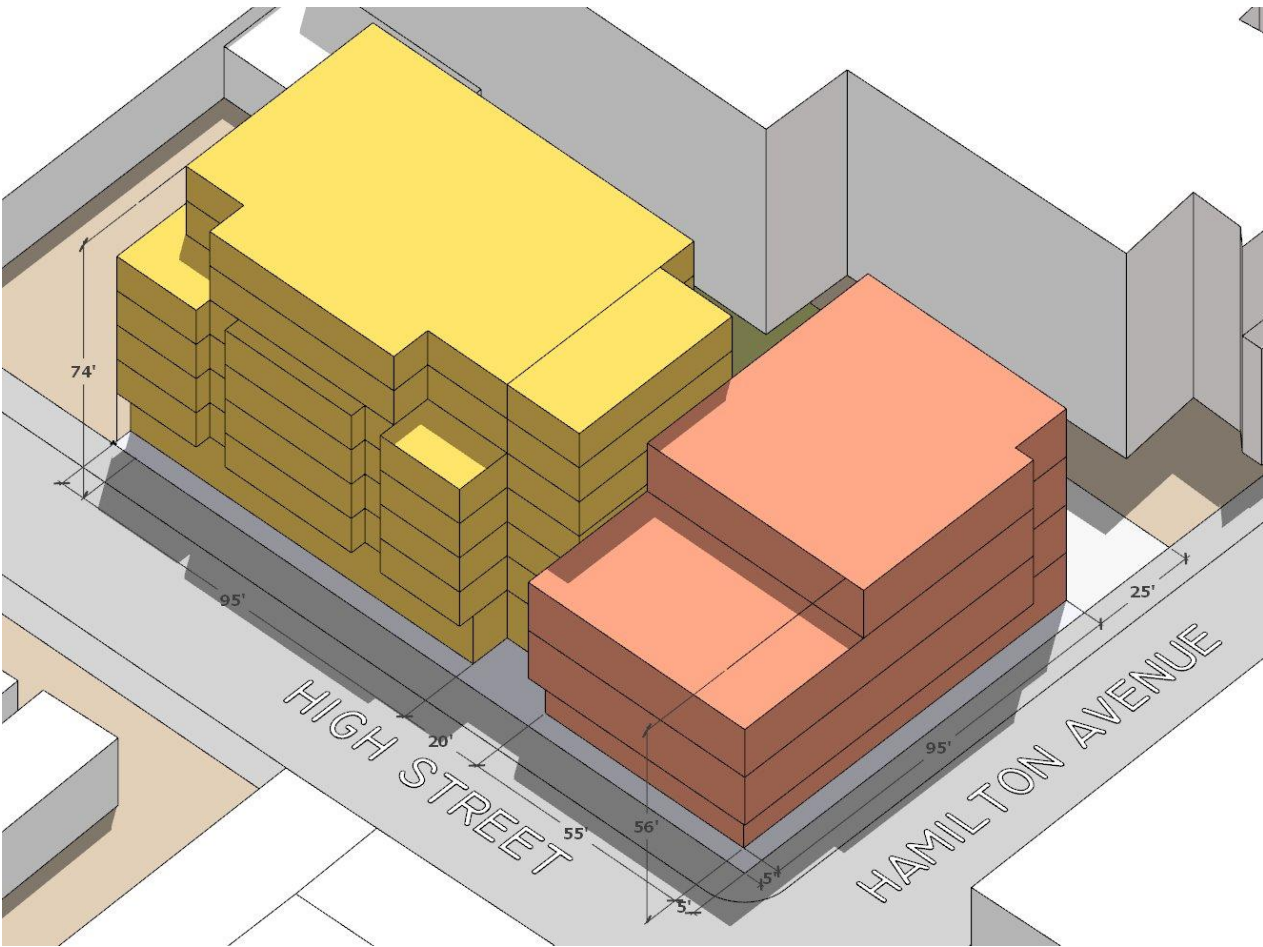


Draft analysis results.  
Source: Strategic Economics, 2025.

# FEASIBILITY OF A 7-STORY MIXED USE

*Prototype tested as side-by-side and stacked office / residential. Tested as a rental product*

- Relatively weaker rental housing market compared to for-sale market
- Stacked prototype benefits from design efficiencies
- **Currently infeasible** under current general local conditions
- **Higher-density housing products more readily become feasible or infeasible as development conditions change**



Draft analysis results.  
Source: Strategic Economics, 2025.



# ADDITIONAL ANALYSIS FINDINGS

- Competing uses (housing and office):
  - Office space is the long-term driver of value
  - Many sites would be costly to acquire due to existing office use
- Site size challenges:
  - Small sites pose challenges: inefficient design, parking, high-cost construction formats
  - Larger sites provide greater flexibility for higher-density housing
  - The tested .5-acre site is large for Downtown, but small for efficient midrise housing products
- Parking is costly to provide; can be more easily reduced for rental products

# KEY TAKEAWAYS

- Despite shorter-term feasibility challenges, downtown Palo Alto is a highly desirable location and likely to attract future housing development if other barriers are minimized
- Site size and conditions impact whether and what kinds of housing can be built
- The Plan Area needs a diversity of housing types to meet the city's housing goals



# QUESTIONS

# GROUP ACTIVITY



# KEY CONSIDERATIONS

## PARCELS CONSIDERED SUITABLE FOR HOUSING DEVELOPMENT

- A. Housing element sites and city owned surface parking
- B. Underutilized privately owned parcels
- C. Parcel sizes> 0.25 acres

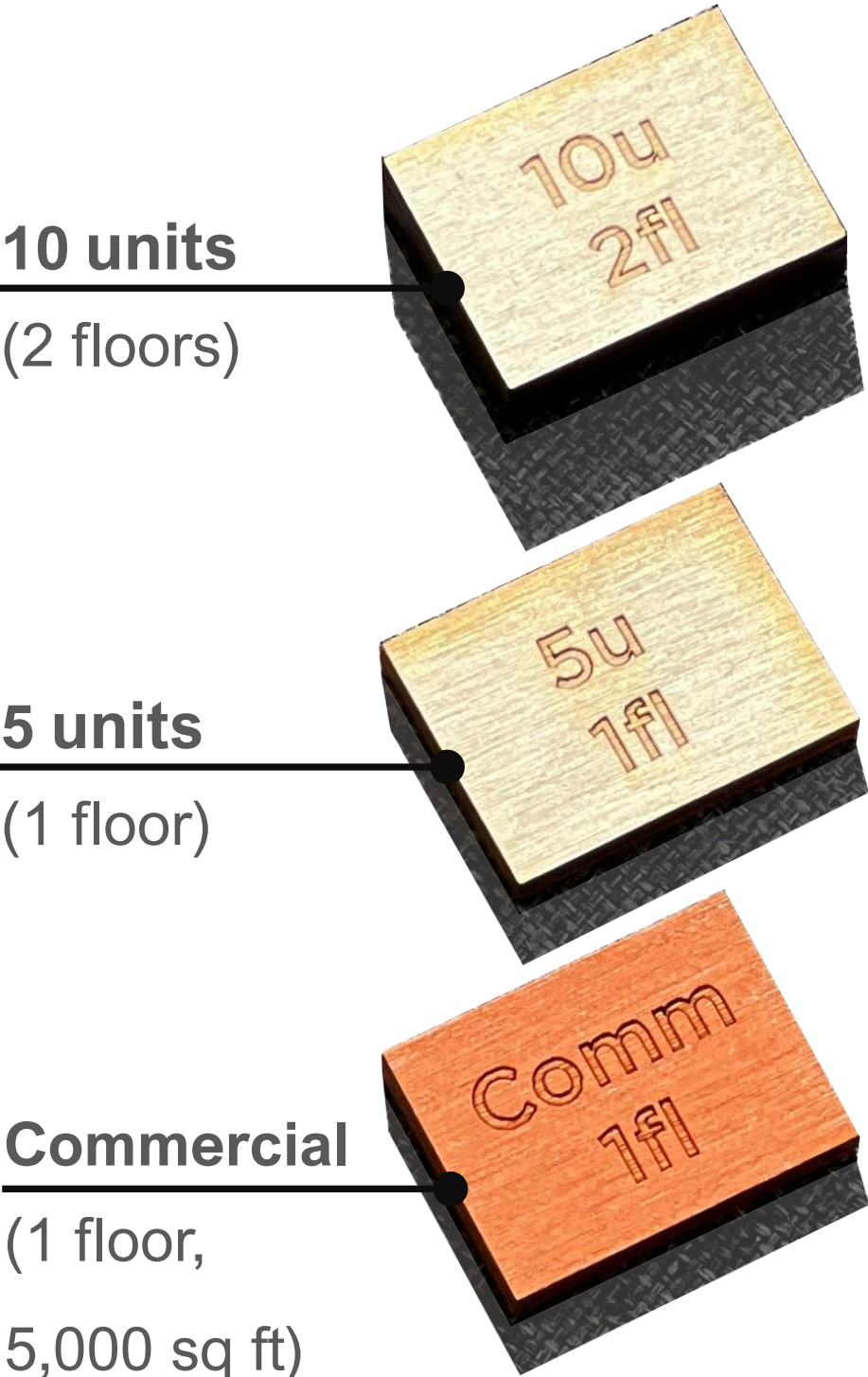
## PARCELS CONSIDERED UNLIKELY TO REDEVELOP

- A. Historic resources
- B. Parcels developed within the last 20 years





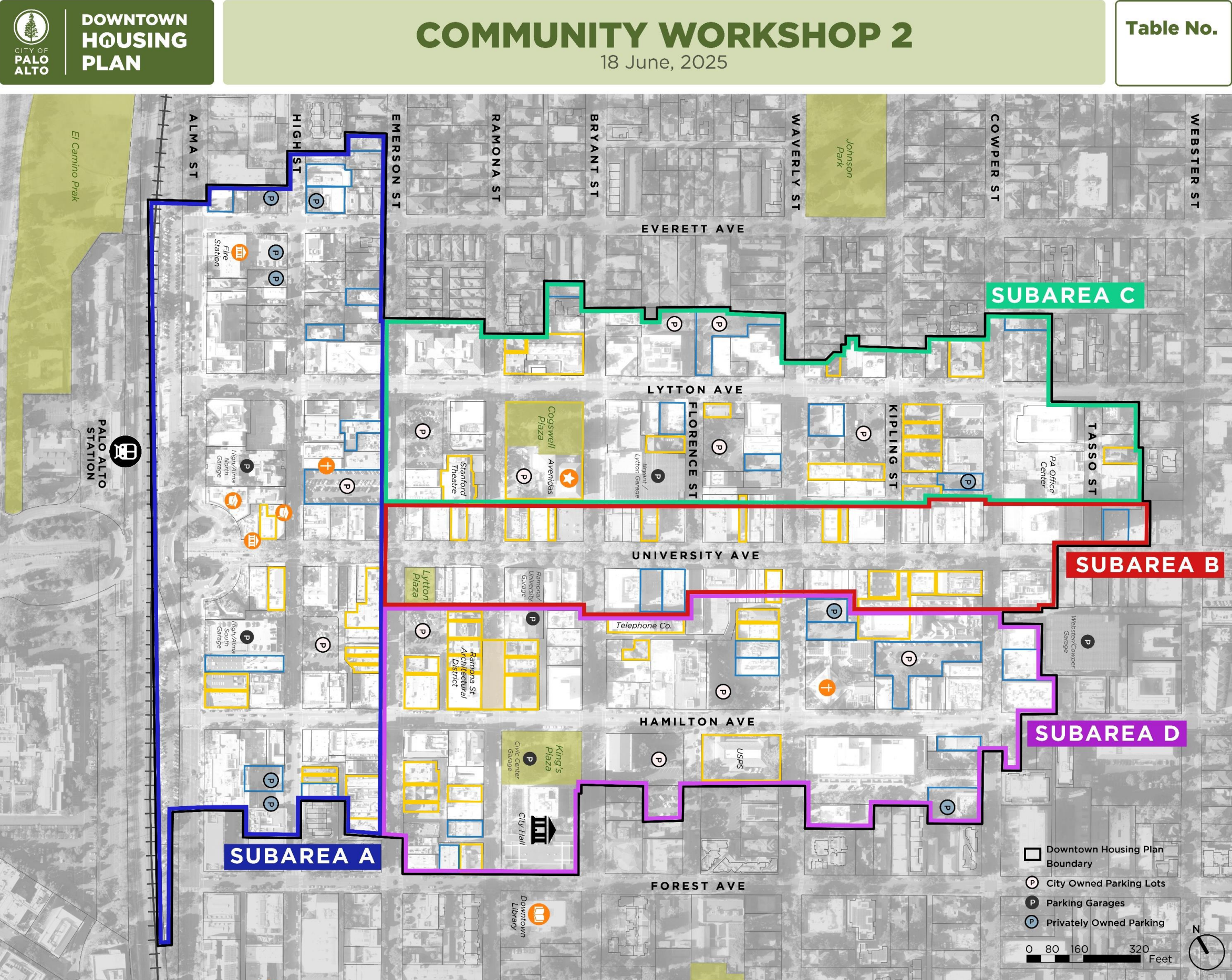
# GROUP ACTIVITY



- OBJECTIVES**
- 1. Preserve Historic Resources
  - 2. Prioritize Housing Element Sites
  - 3. Explore Opportunity on City Owned Parking Lots
  - 4. Identify Other Parcels for Housing
  - 5. Identify Subareas to Prioritize for Greater Development Intensity

WHAT WERE YOUR CONSIDERATIONS IN DISTRIBUTING HOUSING DEVELOPMENT?

HOW MUCH NEW DEVELOPMENT CAN WE ACHIEVE?		
SUBAREA	HOUSING UNITS	COMMERCIAL SQ.FT.
SUBAREA A		
SUBAREA B		
SUBAREA C		
SUBAREA D		
TOTAL		





# ZONE A





# ZONE B





# ZONE C





# ZONE D

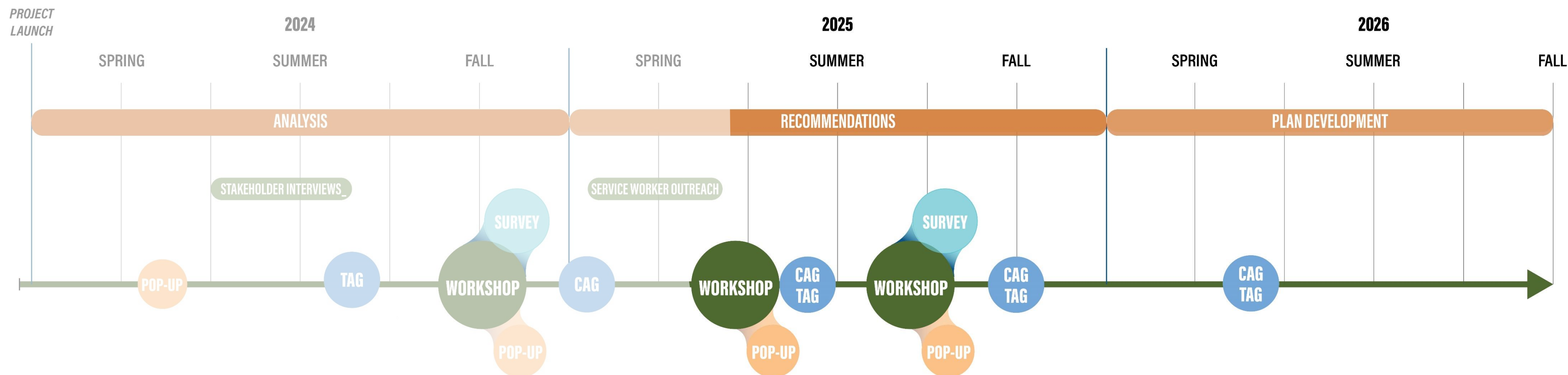




# NEXT STEPS

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- Vet pro forma model further through Developer engagement to refine project feasibility assumptions (Summer).
- Refine alternative scenarios for distributing housing density within the Plan Area, informed by community feedback (Summer) and pro-forma analysis (Summer).
- Present alternative scenarios and preliminary recommendations to City Council for their feedback (late Fall).
- Community Workshop 3: Select a preferred scenario to include in the Downtown Housing Plan and finalize recommendations (early Winter).





**THANK YOU**