

September 23, 2019

Honorable Mayor Filseth and Members of the Palo Alto City Council  
250 Hamilton Avenue  
Palo Alto, CA 94301

Dear Mayor Filseth, Vice Mayor Fine, and Councilmembers Cormack, DuBois, Kniss, Kou, and Tanaka:

**RE: Item 8 - Colleagues' Memo from Councilmembers DuBois and Kou Regarding Affordable Housing Plan**

On behalf of our members, SV@Home would like to provide recommendations on several items presented in the colleagues' memo. We greatly appreciate the memo's goal of increasing affordable housing opportunities in Palo Alto. In particular, an inclusionary housing ordinance for rental properties would be a key part of the City's affordable housing toolkit. With that said, it is critical for the Council to carefully consider the potential impact or unintended consequences of any proposals that might negatively affect the production of affordable or market rate housing in Palo Alto. We believe Palo Alto city staff are well positioned to help the Council analyze and weigh these factors.

**#1. Inclusionary Housing.** We are happy to see that Palo Alto is ready to move forward with a rental inclusionary ordinance. SV@Home has worked on and followed inclusionary ordinances countywide and has compiled an exhaustive set of best practices with regard to inclusionary housing, which can be found [on our website](#) or attached to this letter. Important highlights include a 15% inclusionary rate at an average of 60% AMI, setting fees at a level that incentivizes on-site build of affordable units, and application of the ordinance to developments of ten units or more, to avoid discouraging missing middle construction types.

The rationale of inclusionary policy is to generate resources without deterring housing development. However, almost no housing development is currently moving forward in Palo Alto, meaning that this policy will produce no inclusionary units and no money towards the city's affordable housing fund until that problem can be fixed. Thus the Council should explore mechanisms for increasing production of housing to reap the full benefits of an inclusionary policy.

In addition to feasibility concerns, we do caution that inclusionary housing rates above 15% leave open the opportunity that California's Department of Housing and Community Development (HCD) could review, investigate, and even overturn an inclusionary ordinance, whereas a 15% rate is discretionary on the part of cities.

**We recommend continuing to explore an inclusionary rental policy, targeting a level that maximizes affordable housing production and funds by remaining feasible. The rate should be set at 15%, absent strong evidence that a higher rate is supported by the local market.**

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**#3. Density Bonuses for Mixed-Use Development.** The rationale behind density bonus policy is to incentivize both density and affordability. Adding a higher inclusionary requirement such as 20% or 25% for density bonus developments would effectively tax denser building types that are by their size providing more affordable units, disincentivizing the creation of the housing supply that Palo Alto needs. Based on feasibility studies from surrounding jurisdictions, 20-25% inclusionary is too high for multi-family developments across the region, and runs the risk of making housing development infeasible.

**We recommend dropping this item, so that density bonus development is not rendered infeasible.**

**#4. In-Lieu Fees or Off-Site replacement for units removed from housing stock.** This idea is promising. While Palo Alto has not yet experienced a similar level of demolition and displacement, neighboring Mountain View has faced a large number of demolitions of naturally-occurring affordable housing stock. In-lieu fees or off-site replacement could mitigate the displacement impact of redevelopment. It could also counteract the incentive to redevelop older, naturally affordable housing and rather focus efforts on adding new housing stock.

**We recommend further exploring this topic.**

**#5. Protections and regulations in low-density zoning.** We are happy to see the Council focusing on the importance of missing middle housing types. The production of missing middle housing types like duplexes, triplexes, quadplexes, and ADUs would provide greater affordability for middle income people.

To ensure that the spirit of this goal from the City's Housing Work Plan is implemented, direction to staff should be clear that relatively low-density housing types such as cottage clusters and duplexes should not be preserved at all costs, especially at the expense of quadplexes, stacked flats, and modest apartment buildings that also integrate well with single family neighborhoods.

Palo Alto has a rich history of integrating moderate density uses into single family neighborhoods. Drive down Bryant St from City Hall towards Oregon Expressway, and you will see mansions, smaller single family homes, and half-block, three story buildings that are stacked flats or condos. Those moderate density uses fit into the neighborhood and provide greater affordability than exclusively single family zones.

**We recommend that the language of this item be modified to include the production of missing middle housing opportunities, as well as to clarify that any protection or regulation of cottage clusters and duplexes be focused on preventing their replacement with single family homes, rather than other modest density, missing middle housing types.**

**#6. Protections and regulations to prevent existing housing being converted to commercial/hotel use.** Palo Alto has a high jobs-housing imbalance, which puts severe upward pressure on rents and home prices, decreasing affordability. Protecting existing housing from being converted to commercial/hotel use could help keep the jobs-housing imbalance from further worsening. With that said, some mixed use developments introduce commercial space while also adding more housing stock. That type of development should be exempted from any restrictions on redevelopment.

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**We recommend exploring this topic further, while excluding any conversions to mixed use development that would create more homes overall.**

We look forward to continuing to work with the Council and City Staff to identify and enact policies that support the City's Housing Workplan goals. We were concerned, however, that this memo was added to the Council agenda on Friday, with no notification to the City Council agenda mailing list. It would be preferable to have more notice on substantive housing issues so the public has more time to provide thoughtful input on City policies.

Sincerely,



David K Meyer  
Director of Strategic Initiatives

