



City of South San Francisco

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South San Francisco, CA

Legislation Text

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Report regarding a study session to review potential redevelopment scenarios for the Municipal Services Building property at 33 Arroyo Drive. *(Mike Lappen, Economic Development Coordinator)*

RECOMMENDATION

Staff recommends that City Council receive a study session to discuss three potential redevelopment scenarios for the Municipal Services Building (MSB) property at 33 Arroyo Drive:

- Scenario 1: solicit a developer or developers for a market rate residential project on the MSB site;
- Scenario 2: solicit a developer or developers for a fully-affordable residential project on the MSB site;
and
- Scenario 3: consideration of a joint project and a joint developer solicitation with the Buri Buri Shopping Center ownership.

BACKGROUND

Introduction

In preparation for this study session, staff engaged BAE Urban Economics, Inc. ("BAE") to prepare a financial analysis of two disposition options for the MSB site alone and the potential for developing a larger project that would include the MSB site and the adjacent Buri Buri Shopping Center located at 1057 El Camino Real ("BSC Site"). The purpose of the analysis is to inform City Council of the potential value of the MSB Site offered alone for redevelopment or offered for redevelopment jointly with the owner of the BSC Site.

Based on the analysis, Staff identified three potential development scenarios for discussion and City Council direction:

- 1) Solicit a developer for a market rate residential project on the MSB Site;
- 2) Solicit developer for a fully-affordable residential project on the MSB Site; or
- 3) Negotiate with the owners of the Buri Buri Shopping Center to develop a joint project with a joint developer solicitation;

Property Description

The MSB Site is comprised of two parcels (33 and 81 Arroyo Drive) that together measure approximately 2.23 acres or 97,139 square feet of land area. The rectangular site is located at the intersection of Arroyo Drive and El Camino Real, with approximately 160 frontage feet along El Camino Real and approximately 560 frontage feet along Arroyo Drive. The site topography is sloped downwards towards Camaritas Avenue to the south and the northwest portion of the site near Arroyo Drive and El Camino Real has very good visibility. The MSB Building is approximately 115,870 square feet and would need to be demolished for redevelopment.

Planning Context

Construction of the South San Francisco BART Station created new opportunities for innovative planning along El Camino Real. With the adoption of the South San Francisco General Plan in 1999, the City Council recognized that the SSF BART Station area could be a new activity node serving local residents and attracting visitors. Specific to planning for the development of the El Camino Real Corridor, the City took the following actions: 1) adopted the City's General Plan in 1999, which specifically encourages transit oriented development along the El Camino Real corridor; 2) adopted the BART Transit Village Plan; 3); constructed Centennial Way, a shared bike and pedestrian path over the BART-SFO right-of-way; and 4) adopted the El Camino Real/Chestnut Avenue Area Plan (2011 and 2017).

Consistent with these planning efforts, the most recently built and approved projects in the area include the Community Civic Campus, Park Station at 1200 El Camino Real (99 units), the Mid-Peninsula Housing Project at 636 El Camino Real (109 affordable units and 5,700 square feet of commercial space), the Mission & McLellan project at 1309 Mission Road (20 units and 6,000 square feet of commercial), the City Ventures project at 1256 Mission Road (31 units), Summerhill Housing Group's project at 998 El Camino Real (172 units and 12,000 square feet of commercial), and L37/KASA's PUC project facing Mission Road (800 units and 13,000 square feet of commercial space).

El Camino Real/Chestnut Avenue Area Plan

In 2011, the City Council and Redevelopment Agency adopted the Chestnut Avenue/El Camino Real Area Plan, which aims to transform the area south of the South San Francisco BART Station into a new walkable, distinctive, mixed-use district at the geographic center. The Plan envisions a new neighborhood of up to 4,400 residents housed in low- to high-rise buildings, providing a range of commercial uses, walking access to everyday amenities, a new Community Civic Campus with library, recreation and police services, plazas, and gathering spaces for the entire South San Francisco community.

In 2017, anticipating the eventual redevelopment of the MSB Site once the Civic Campus was completed, the City changed the MSB Site's land use designation from Public to El Camino Real Mixed Use North, High Intensity. This land use designation is consistent with that of the adjacent Buri Buri Shopping Center site. The base density permitted on both sites is 80 units per acre, with a maximum of 110 units per acre with incentives, such as a Transportation Demand Management program, high quality or innovative design, and pedestrian and bicycle infrastructure. This does not account for the density that could be achieved by utilizing the State Density Bonus.

DISCUSSION

Development Scenarios

City staff, with help from BAE, investigated three development scenarios to estimate the potential value of the MSB Site alone and a combined project. To evaluate the market-rate scenario, BAE formulated a development program for the MSB Site and BSC Site as separate development and then evaluated the two sites together. For

the MSB Site, BAE evaluated how the development yield might change if the site were offered only for affordable housing development, which could impact the total residential yield of the site and the amount of revenue the City could obtain for the MSB Site if priced at the site's fair market value.

Scenarios 1&2: Market Rate and Fully-Affordable on the MSB Site

BAE prepared a development yield analysis that assumed development would occur on only the MSB site. The analysis considered a market rate development (meeting the City's 15% inclusionary requirement) as well as considering a fully-affordable development on the MSB Site. While the site has a capacity for 245 - 400 units depending on whether the developer utilizes existing zoning (110 dwelling units/acre) or maximizes density on the site (likely 180 dwelling units/acre). The density on the site would be at Council's discretion.

Based on the density allowed, the MSB Site has a potential value of \$5.2 million (110 du/a) to \$10 million (180 du/a). The value of this site, on a per unit basis, is lower than the value for the combined site discussed below due to slightly higher development costs associated with smaller economies of scale. These value estimates are based upon a total per unit development cost of approximately \$496,400, exclusive of land, and assuming a market rate development with a 15% inclusionary requirement. It is likely that the site would fetch a substantially lower price for a fully-affordable housing development.

If an affordable housing developer or developers are sought, they may seek to phase the development to best leverage Low Income Housing Tax Credits. This would also allow the various phases to be targeted to different household types such as family housing, senior housing, or special needs housing, each of which have different program and design requirements and varying needs for space for services as well as open space and amenities. To account for these circumstances, BAE estimates that the MSB Site would be likely split into three separate projects if developed fully-affordable. These three projects are hypothetical and simply illustrate one of several potential affordable housing programs that could be accommodated on the MSB Site.

Scenario 3: Market-Rate Development Program on the Combined MSB and BSC Sites

The BSC Site is comprised of three parcels (1015 and 1057 El Camino Real, and 74 Camaritas Avenue) totaling approximately 3.96 acres or 172,654 square feet of land area at the southwest corner of El Camino Real and Westborough Boulevard. The site has approximately 447 frontage feet along El Camino Real. The BSC Site has approximately 66,175 gross square feet of retail improvements, including the Pacific Market, O'Reilly Auto Parts, Gunter's Restaurant, and DeVita at Home. Combined with the MSB Site, the two Sites can accommodate 681 - 1,115 units. Like the above scenarios, this range is based on 110 du/a and 180 du/a, respectively.

The combined MSB and BSC Sites have a maximum potential value of \$27.4 million (110 du/a) to \$45 million (180 du/a). These value estimates are based upon a total per unit development cost of approximately \$490,300, exclusive of land, and assuming a market rate development with a 15% inclusionary requirement. Application of the inclusionary requirement would result in 102 - 167 affordable units across the two sites. Due to the large scale of the sites (whether separately or combined) residential development would likely be in phases with the market rate in phases of 200 to 250 units and the affordable units in smaller phases of 80 to 150 units.

Pursuing a combined site development would require participation by the BSC Site ownership in a joint developer solicitation. Staff believe that the BSC Site ownership would be more interested in participating if all of the affordable units were located on the MSB Site, maximizing the value of the privately owned site. With a market rate development meeting the inclusionary requirement, the BSC Site alone would be valued at roughly \$17 million (110 du/a) to \$27 million (180 du/a). By absorbing the affordable units (and their corresponding reduction in land value) on the MSB Site, the value of the BSC Site would increase and perhaps make a joint development more attractive to the BSC Site ownership.

CONCLUSION

While, the size of the combined site would offer a major redevelopment opportunity in the City for residential mixed-use development along El Camino Real at its intersection with Westborough Boulevard, there is no guarantee that the adjacent property owner would be willing to undertake a joint development with the City. Even if the adjacent property owner would be interested in a joint development, negotiations would take longer to complete and potentially delay the delivery of housing on the MSB Site. The City owns and controls the MSB site and could move more quickly to solicit interested developers.

Next Steps

If Council would like to move forward with market rate development on the combined site or the MSB Site alone, the City Council would first need to surplus the MSB Site in accordance with the State Surplus Land Act. This would add roughly six months to any developer selection timeline. If Council opted to move forward with a fully-affordable housing development on the MSB Site, the City could move immediately to developer solicitation. In this case, staff would release a Request for Qualifications in early 2022, followed by a Request for Proposals in summer 2022.

Staff recommends that City Council:

1. Direct staff to solicit affordable housing developers early next year and
2. Designate the Housing Standing Committee to review developer solicitation documents and process, participate in developer interviews, and make a recommendation to City Council on developer selection.

Attachment:

1. Location Map



El Camino Real

Buri Buri Shopping Center

MSB

Arroyo Drive

Government Code Section 54957.5
SB 343
Agenda: 11/02/2021 SP CC
Item #1



MUNICIPAL SERVICES BUILDING REDEVELOPMENT SCENARIOS

STUDY SESSION

NOVEMBER 2, 2021

CITY OF
SOUTH SAN FRANCISCO
CALIFORNIA

Subject Sites



Redevelopment Scenarios

Three scenarios were explored:

1. Market rate residential program on the MSB site alone;
2. Affordable residential program on the MSB site alone; or
3. Market rate development program on the combined MSB and Buri Buri Shopping Center site

Recommendation

Staff recommends that City Council:

1. Direct staff to solicit affordable housing developers early next year; and
2. Designate the Housing Standing Committee to review and recommend to Council a preferred developer.