

## Memorandum

**To:** Katherine Waugh  
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**From:** Raymond Kennedy  
Director of Research

**Date:** August 17, 2022  
**UPDATED November 18, 2022**

**Re:** Update of Housing Needs Impacts Analysis for 123 Independence Project

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In June 2022, BAE Urban Economics (“BAE”) submitted its Housing Needs Assessment for 123 Independence Drive Project (the “Project”). This analysis was based on the Project description as provided to BAE at that time. More recently, the developer has proposed shifting an additional eight units from market-rate to affordable status as a community amenity. Additionally, there are other small variations between the unit mix as analyzed previously by BAE and as currently proposed. Table 1 below provides a comparison of the previous unit mix and the unit mix as of August 17, 2022.

As shown, the overall unit count is unchanged, and the unit mix by size of unit has changed minimally, with one less studio apartment, one more two-bedroom apartment, three fewer two bedroom townhomes, and three additional four-bedroom townhomes.

However, the community amenity appraisal and proposal are still under review, and the number of units may change from the current unit mix. Following the analysis below regarding the unit mix as of August is additional discussion regarding potential changes in impacts if the community amenity ends up involving fewer or more affordable housing units.

The original June 2022 housing needs analysis considered three areas of potential impacts on local and regional housing markets: potential impacts on housing supply, potential impacts on the jobs-housing balance, and the potential for displacement of current residents. Following is a discussion regarding how switching eight additional units from market rate to affordable status might affect each of these impact types.

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**Table 1: Comparison of Development Programs**

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**APARTMENTS**

<u>Below Market Rate</u>	<u>Prior Analysis</u> <u># of Units</u>	<u>Current Project</u> <u># of Units</u>	<u>Change in Unit Mix</u> <u># of Units</u>
Studio	14	15	1
1 BR / 1 ba	28	33	5
2 BR / 2 ba	6	8	2
<b>Market Rate</b>	<b># of Units</b>	<b># of Units</b>	<b># of Units</b>
Studio	75	73	-2
1 BR / 1 ba	157	152	-5
2 BR / 2 ba	36	35	-1

**TOWNHOMES**

<u>Below Market Rate</u>	<u>Prior Analysis</u> <u># of Units</u>	<u>Current Project</u> <u># of Units</u>	<u>Change in Unit Mix</u> <u># of Units</u>
2 BR / 1.5 ba	6	3	-3
4 BR / 2 ba, 4 BR 2.5 ba	12	15	3
<b>Market Rate</b>	<b># of Units</b>	<b># of Units</b>	<b># of Units</b>
2 BR / 2.5 ba	34	34	0
3 BR / 3.5 ba	64	64	0
BMR Apartments	48	56	8
BMR Townhomes	18	18	0
Apartments Total	316	316	0
Townhomes Total	116	116	0
<b>Grand Total</b>	<b>432</b>	<b>432</b>	<b>0</b>

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Source: City of Menlo Park; BAE, 2022.

The previous BAE analysis stated

The Proposed Project will result in a minimal impact on employment in Menlo Park and will also have only a minimal impact on employment at the regional level. The jobs removed (including directly, indirectly, and induced) due to the redevelopment of the project site will be balanced out by the very small number of new jobs onsite and the extremely limited indirect and induced employment linked to those jobs, along with the induced jobs resulting from the local and regional expenditures of the new residents of the Proposed Project. As a result, based on the analysis presented in this report the Project is likely to have a negligible impact on the regional housing market, jobs-housing balance, and displacement pressures.

***Potential Impacts on Housing Supply***

Regarding potential impacts on housing supply, the previous analysis stated the following regarding the potential impacts on housing supply:

The project has an estimated overall negligible positive net impact on the regional housing supply of 15 units, due largely to the removal of several job-generating businesses on the project site which are roughly balanced by the number of additional induced jobs generated by the project. Just within Menlo Park, there are approximately 3,900 units, including the Proposed Project, in the pipeline. It is likely that many of the new jobs linked to the project would actually be elsewhere in the two-county region, so the continued expansion of the housing supply just in Menlo Park, while critical to addressing regional housing challenges, could easily absorb demand from workers attributable to the Proposed Project who seek housing in Menlo Park, even without accounting for units made available through turnover of existing units.

Under the revised Project plan, the job-generating uses are still removed. The number of jobs onsite is likely unchanged since the overall unit count remains the same. Potential induced changes could result from the very limited difference in the overall unit mix by size, and the shifting of the eight additional units from market-rate to below-market status. With respect to the unit size difference, there would be a very limited estimated increase in project population due to the shift toward larger units (e.g., from two-bedroom to four-bedroom townhomes). However, this would be counterbalanced by the increase in the number of affordable units, whose occupants would have lower incomes and lower household expenditures, resulting in very little change in the overall resident expenditures supporting induced employment that would generate demand for housing outside the Project. Thus, the project would continue to have a negligible impact on the regional housing market

#### ***Potential Impacts on Jobs-Housing Balance***

As state in BAE's previous analysis

The Proposed Project overall is estimated to create slightly more units than the net demand from worker households, but the change in demand would not be significantly different from the change in supply, thus resulting in little change in the overall jobs housing balance in the region. Even if the workers in the created offsite jobs all chose to reside in Menlo Park, there would be no meaningful change in the jobs-housing balance in the city. The net difference in housing demand is negligible. At lower income levels, there is a very slight net demand for more units, but this net demand is extremely small (ten units) in the context of the overall housing market for Menlo Park or especially the region.

Since the net change in jobs is still negligible and the number of housing units is unchanged, there would still be little change in the jobs housing balance. Furthermore, since the revised Project includes additional below market rate units, the extremely small net demand for new below market rate units would be even smaller, or perhaps even in balance.

#### ***Potential Displacement Impact Findings***

The prior study stated that

Displacement and gentrification are a key issue locally and throughout the region and addressing the cumulative impact of the Proposed Project and other projects that generate new housing demand will be essential to addressing cumulative housing needs and mitigating displacement pressures over the long term.

However, given the very limited potential net impacts of the Project on the local and regional housing supply and jobs-housing balance, the Project is not likely to have a perceptible impact on local and regional displacement pressures. Furthermore, the Proposed Project is located in an area that is transitioning from commercial and industrial uses to mixed use development including residential, rather than being located in an existing residential neighborhood in Menlo Park such as Belle Haven, or in East Palo Alto, where lower income households currently are concentrated. Due to the regional nature of the housing market, the Project is unlikely to have any measurable impact on displacement pressures in Menlo Park and East Palo Alto.

The minor changes proposed for the Project do not change these findings. In fact, the small increase in below market rate units will counter displacement by providing additional housing for lower-income households in Menlo Park.

### ***Changes in Impacts Resulting from Fewer or More Affordable Units Added as a Community Amenity***

The analysis above regarding a shift of eight units from market rate to below market rate finds that the impacts on housing needs from such a shift is negligible. Ergo, any reduction in affordable units back down to the minimum 66 required would also be negligible.

For an increase in the affordable unit count beyond shifting eight units from market rate to affordable status, if there is a point beyond which impacts are negligible, the impacts could be considered positive. For potential impacts on the housing supply and the jobs-housing balance the analysis would look at the net new housing units created vs. the net new jobs for workers who might demand more housing. The number of existing jobs removed by the project and the number of onsite jobs (i.e., property management) would remain unchanged; the new jobs are virtually all offsite jobs generated to meet consumer demand from the new households (induced impacts). Since that demand is driven by income, additional affordable units occupied by lower-income households would generally reduce consumer demand, thus also reducing the number of jobs generated and units demanded by any new offsite workers. At some point, switching the unit mix to more affordable units than eight might result in a measurable improvement in the ratio of jobs to housing in Menlo Park, which would be beneficial given the current imbalance (many more jobs than employed residents).

With respect to potential displacement, any increase in the below market rate component would act to mitigate possible gentrification by providing more housing for lower income workers and households in Menlo Park.

### **Summary of Findings**

In summary, the very limited modifications to the unit mix and the income mix for the Project that proposes substituting eight affordable units for the same number of market rate units does not lead to a significant change in the findings of BAE's original study, which estimated that the Project would have negligible impacts on the regional housing market, the jobs-

housing balance in Menlo Park and the region, and the potential for displacement and gentrification. Any decrease in the number of units switched to being affordable would thus also have negligible impacts. An increase in the number switched could at some point result in a measurable impact, but the resulting impacts would be beneficial in reducing the induced job impacts, improving the jobs-housing balance, and mitigating gentrification by providing more below market rate housing for lower income workers and households.