

MEMORANDUM

To: City of Redwood City
From: Economic & Planning Systems, Inc.
Subject: Live/Work Development Challenges; EPS #151084
Date: September 15, 2017

The Economics of Land Use



The memorandum evaluates development feasibility challenges associated with the Mixed Use Live/Work (MULW) zoning designation in Redwood City. Economic & Planning Systems, Inc. (EPS) has prepared this memo as a subconsultant to Dyett & Bhatia as part of the Redwood City El Camino Real Corridor Plan.

The City's Mixed-Use Live/Work (MULW) zoning district was first adopted in 2013 and currently applies in the northeastern portion of the El Camino Real Corridor Plan Area. However, since its adoption, City staff is unaware of any projects that have utilized this designation to build or convert space to MULW. Consequently, the City is interested in understanding impediments to successful implementation of the MULW and steps that might improve the potential of this land use. Accordingly, EPS has organized the document as follows:

- **Overview of Live/Work Concept**
- **Live/Work Regulations in Bay Area Cities**
- **Success of Live Work Concepts**
- **Policy Implications**

*Economic & Planning Systems, Inc.
One Kaiser Plaza, Suite 1410
Oakland, CA 94612-3604
510.841.9190 tel
510.740.2080 fax*

*Oakland
Sacramento
Denver
Los Angeles*

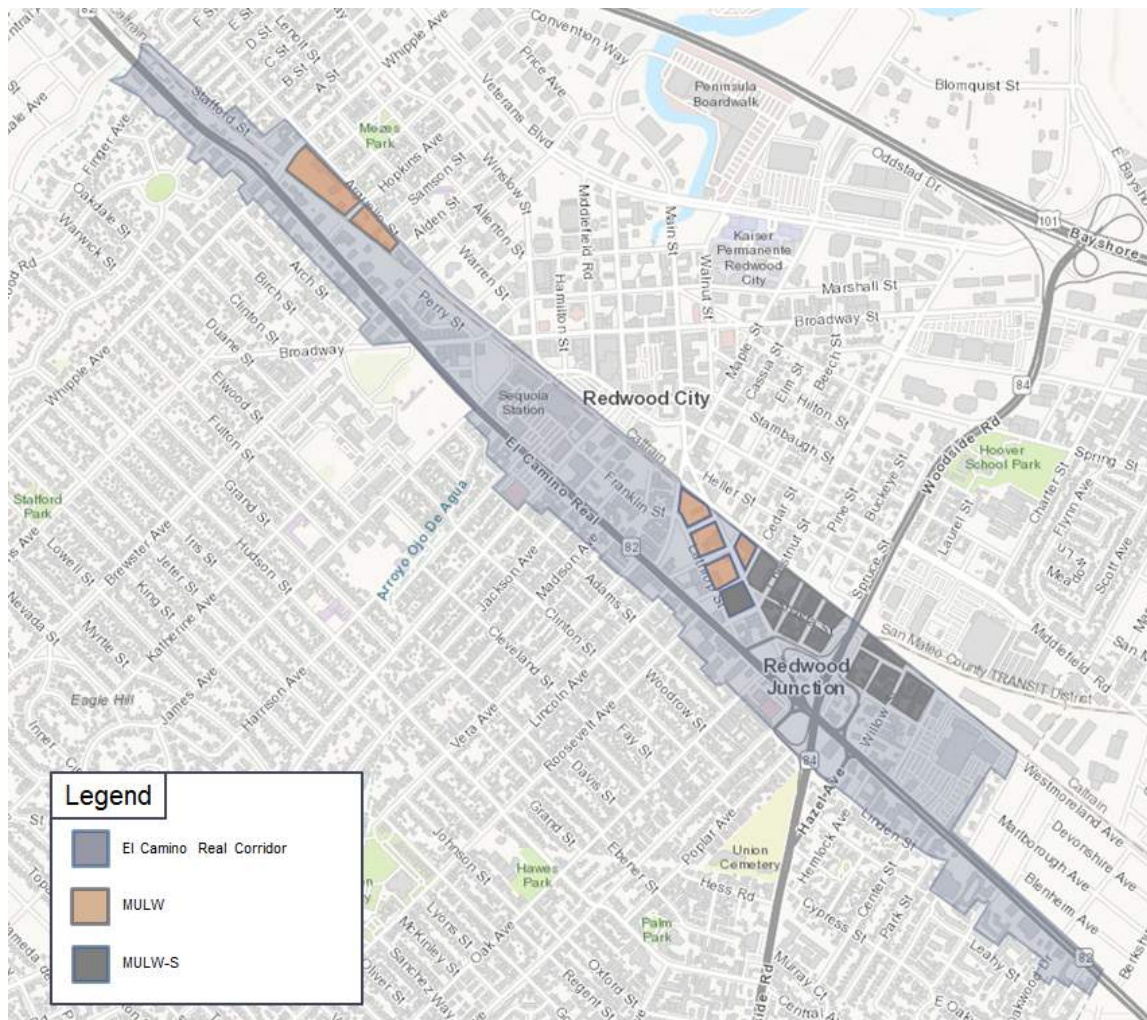
www.epsys.com

Overview of the Live/Work Concept

While the live/work concept is increasingly popular with urban design and planning professionals, there remains notable variation in the specific characteristics of this land use. Generally, "live/work" describes structures that include both residential and employment uses within the same leased or owned unit. The concept typically is configured with distinct dwelling-related functions and designated work space. Additionally, it is generally accepted that the occupant of the residential portion of the unit must also be the user of the unit's associated commercial space.

Figure 1 presents a map of the El Camino Real Corridor Plan Area, highlighting locations where MULW zoning is found. As shown, the City's mixed-use live/work zoning district is broken out into two zoning categories, MULW and MULW-S. Functionally there are no differences between these two zoning designations as they contain the same performance standards, use restrictions, and are defined with the same language (the MULW-S is designed to meet additional requirements for the provision of shelter space). In general, Redwood City's live/work has a focus on low-intensity industrial and commercial space, where dwelling units are allowed as an accessory use.

Figure 1 Live/Work within the El Camino Real Corridor



While the live/work concept is found in numerous Bay Area jurisdictions, design requirements, allowable uses, and other elements vary from one city to the next. **Table 1** below documents how select Bay Area cities choose to define live/work land uses within their respective zoning ordinances.

Table 1 Live/Work Definitions (Select Bay Area Cities)

City	Definition / Intent
Redwood City	"Live/work environments combine residential occupancy with commercial or light industrial activity in the same building space, generally with the resident using the combined or adjacent workspace for his or her business. Typical uses include artist lofts, studio spaces, small offices, and similar low-intensity uses. Development generally is low to moderate in scale."
Oakland	"A room or suite of rooms that are internally connected maintaining a common household that includes: (a) cooking space and sanitary facilities that satisfy the provisions of other applicable codes; and (b) adequate working space reserved for, and regularly used by, one or more persons residing therein. A Live/Work unit is intended to accommodate both residential and nonresidential activities."
Milpitas	"A live/work unit is defined as a single unit (e.g., studio, loft, or one bedroom) consisting of both a commercial/office and a residential component that is occupied by the same resident. The live/work unit shall be the primary dwelling of the occupant."
Sunnyvale	"A live/work unit is defined as a single unit consisting of both a commercial/office and a residential component that is occupied by the same resident. The live/work unit shall be the primary dwelling of the occupant."
Palo Alto	"A rental or ownership unit comprised of both living space and work area, with the living space occupying a minimum of 60% of the total gross floor area of the unit, and such that the resident of the living space is the owner/operator of the work area."
Emeryville	"A unit that combines a work space and incidental residential occupancy that is occupied and used by a single household in a structure that has been constructed for such use or is converted from commercial or industrial use and altered to accommodate residential occupancy and work activity"

Source: Definitions for live/work units have been retrieved from each city's respective zoning code.

There are a variety of reasons why cities choose to write live/work into their zoning ordinances. The list below includes many, albeit not all, of the inter-related factors that lead cities to allow, encourage, and/or zone for live/work space.

Accommodate Live/Work spaces occurring organically

In many cases, the live/work concept appears organically within the urban environment as individuals seek alternative living arrangements in areas that are traditionally non-residential. An example of this may be an artist choosing to live in an industrial building that doubles as their work space. A City may choose to permit live/work within these zones in order to regulate these activities which were previously prohibited. Through regulation, cities can subsequently ensure that these structures are safe for both commercial and residential purposes.

To advance traffic reduction goals

Individuals that occupy a live/work unit do not have to commute daily to their commercial activities; instead, they are able to work on-site which can both reduce transportation service demands and greenhouse gas emissions.

To support a transitional zone between industrial and residential areas

A live/work district is uniquely suited as a transitional use which can act as a buffer between existing industrial and residential areas. This is particularly true when the activities permitted within live/work zones are limited by noise and pollution standards.

To encourage the preservation of existing and historic buildings

In some cases, former industrial or commercial buildings may hold historic significance within a jurisdiction. If their intended use is no longer feasible, live/work may be a viable alternative to preserving and maintaining use of the structure.

To provide for a diversity of housing options and affordability

Live/work units are a unique product, and their presence contributes to the diversity of a community’s housing stock. This diversity is seen in both the function of the unit itself as well as the relative pricing of the unit. By bundling both the residential unit and the commercial space, an individual may be able to spend less on their combined residential and commercial activities.

Live/Work Regulations in Bay Area Cities

Bay Area cities vary in their approach to planning and regulating live/work space and/or districts. While some cities like Redwood City have designated zoning districts for live/work, many others permit live/work as a conditional use within mixed-use zones. Furthermore, the performance standards and special requirements of live/work units differ significantly within the Bay Area.

Table 2 illustrates some of these differences in a select sample of Bay Area communities.

Table 2 Live/Work Policy Matrix (Select Bay Area Cities)

Live/Work Zoning Policy Elements	Redwood City	Oakland	Milpitas	Sunnyvale	Palo Alto	Emeryville
Zoning Designation / Where Permitted	Mixed Use Live/Work	Central Estuary District Mixed Use and Industrial Zones	Mixed Use	Mixed Use Combining Districts	Pedestrian / TOD Combining District	Allowed as conditional use
Physical Characteristics						
% Available for Residential	50% - 60%	33% - 50%	60%	N/A	60%-100%	50% ¹
Minimum Dwelling Unit Sq. Ft.	750	800	N/A	N/A	N/A	750
Max FAR	2	3	N/A	N/A	N/A	3 (6 with bonus) ²
Multiple-Unit Dwelling (Yes/No)	No	Yes	N/A	Yes	Yes	Yes
Live Space May be Detached	No	No	No	No	N/A	N/A
Tenant Regulations						
Business License Required	Yes	Yes	Yes	N/A	N/A	Yes
Commercial component restricted to resident	Yes	Yes	Yes	Yes	Yes	Yes
Zoning Notes	Live/Work is a permitted use within the existing Mixed Use Live Work (MULW) zoning districts. No special permits are required.	Live/Work is a permitted use within the D-CE-3 and D-CE-4 zones. These are Central Estuary Mixed Use Zones.	Allowed under mixed used zoning following special review and a minor conditional use permit.	Live/Work is allowed only in specific (MU) combined districts that allow for certain regulations to be combined with basic regulations of a zoning district. Requires special development permit.	Maximum size of 2,500 sq. ft. / unit. Height restricted to 40'. Non-residential FAR is .40.	Live/Work requires a conditional use regardless of whether it is developed in a residential or commercial zone.

[1] Not more than 50% of floor area is available for living space in commercial zones, no more than 80% is available in residential zones.
 [2] Emeryville does not impose explicit FAR limitations for Live/Work. However, Live/Work FAR is subject to FAR requirements of the respective zone it is developed in.
 Source: Zoning regulations for live/work units have been retrieved from each city's respective zoning code.

When compared to other jurisdictions in the region, Redwood City's MULW district appears to have a particular focus on preserving commercial activities. The Redwood City MULW district allows for commercial-only structures but requires that any residential units within the district fall within the live/work guidelines (i.e., no stand-alone residential). Additionally, Redwood City's MULW orientation towards preserving commercial uses is further evidenced by the existing restrictions on multiple-unit dwellings and a relatively low permissible FAR (i.e., maximum of 2.0).

Despite the creation of a live/work zoning district in Redwood City in 2013, the City has yet to see its first completed live/work project. While Redwood City has taken a proactive approach towards planning and regulating live/work structures, many other communities adopt live/work regulations as a reactionary measure to permit activities that may already be taking place in their communities.

Success of Live/Work Product Type

While data on the number and location of live-work units and space in the Bay Area is difficult to obtain, readily available information collected by EPS suggests that while this product type does exist in a number of communities it is relatively rare, particularly compared to other residential and commercial mixed-use products. Moreover, the communities and subareas where live/work appears to be most prevalent are relatively affordable, working-class neighborhoods (e.g., pockets of San Jose and the East Bay). Examples in San Mateo exist in coastal communities such as Half-Moon Bay and unincorporated areas (e.g., Princeton). This pattern suggests that market forces for live/work development are weaker than that of other land use types.

In a regional context, live/work units appear particularly well suited for individuals in creative fields who may not otherwise be able to afford both a residential unit and a viable work space. Emeryville's emerging Arts District is an example of such an area within the Bay Area region. This area is home to several art galleries and workspaces. Additionally, Emeryville's Arts District currently houses two live/work buildings oriented to serve local artists (Emeryville Artists Co-Op and Bakery Lofts) with another one planned (Pelco Lofts). Many high-cost markets like Redwood City, and much of the Silicon Valley, lack a critical mass of artist and "maker" populations.

As part of this analysis, EPS compiled a brief sample of existing or planned live/work projects within the Bay Area (see **Appendix**). Of the examples, only one project (Cupertino Live + Work) is located along the Peninsula. Furthermore, it is important to note that of these case studies, none of them would be permitted within Redwood City's current MULW zoning district. These projects would be disqualified on the basis of including residential-only units, having detached work spaces, exceeding the MULW FAR, or being in a multi-family format.

As a unique real estate offering, live/work units can be challenging to underwrite and regulate. In particular, the restrictive nature of their operations (resident must also occupy commercial space and hold valid business license) creates a challenge for developers to build this product type speculatively. Among other things, the risk associated with ensuring continuous employment and residents in the same unit is not well accommodated in financial markets or by lending institutions.

Because of this, there are few real estate investment firms who carry substantial expertise and experience in live/work development. Rather, live/work is generally developed by boutique real estate firms and may carry significant risk due to its operational challenges and programming limitations. While, the developer of Cupertino Live + Work reports to have completed numerous

condominium projects, it is his first attempt at this product type.¹ In addition, this project's success appears heavily dependent on the residential component (2,300-square foot dwelling combined with 450-square foot office).

Policy Implications and Next Steps

The niche-orientation of live/work buildings makes predicting their market potential very difficult. In Redwood City and throughout Silicon Valley, the lack of precedent for new-build live/work projects makes speculative development of this product risky. Also, the Redwood City MULW is relatively restrictive, particularly in terms of allowable residential space. In specific instances where commercial uses are underperforming economically and residential uses are prohibited, new live/work product may be a use that creates value through the introduction of the residential use. However, the focus of the MULW on commercial limits the potential for live/work to lift market potential significantly.

In Redwood City, the prohibition of multifamily live/work units, height and FAR restrictions, and the inability to set aside a portion of units as residential-only have been identified as the greatest barriers to development. These concerns have been echoed in feedback provided by private real estate developers to the City. Specific suggestions or comments provided to the City in writing include, without limitation:

- Increase maximum height from 40 feet to 50 feet to allow for more marketable residential and work space formats, such as higher ceilings. While not a specific written comment, an increase in FAR could also improve the economic performance of these projects similar reasons.
- Allow office as a permitted use instead of a conditional one to facilitate development of this more marketable product type.
- Increase the length of the building façade from 200 feet to 250 feet. This would allow for more efficient buildings and floorplates given the general block sizes within the MULW zones.
- Allow a portion of the work uses on the ground floor to stand alone and not be associated with residential uses above. Additionally, although not specifically mentioned in developer comments, the City could also consider permitting residential units as long as they are not street-facing (i.e., have a commercial frontage and the residences would be interior to the site)
- Waive requirement that residents obtain and maintain a valid business license with the City of Redwood City. Note that it is not clear how this requirement is either an impediment or necessary since a business license is required for all commercial activity in the City (with very limited exemptions).
- Allow the sale or rental of portions of the live/work unit to non-occupants of the space.
- Permit multiple-unit dwellings within the MULW zoning code.
- Relax design standards or have separate standards for units that are not public street-facing.

¹ See <http://www.mercurynews.com/2014/04/30/cupertino-planners-on-board-with-live-work-proposal/>

Going forward, any changes in the City's existing MULW zoning should be guided by the specific policy goals that the City is seeking to achieve. Specifically, the list of goals identified earlier (i.e., traffic reduction, buffer zoning, historic preservation, housing diversity) might be a starting place for determining the appropriate policy approach. For example, if the City's primary goal is to stimulate housing diversity, it would focus on eliminating some of the constraints identified above, including more flexibility for the residential component, which likely represents the most economically feasible element of the use. Conversely, if the City's goal is to stimulate employment uses in the area with minimal traffic impacts, the City might make modest alterations to the current MULW code, perhaps increasing heights and allowing office use as of right.

Appendix: Case Studies

Cupertino Live+Work. – Cupertino, CA

Currently under construction, the Cupertino Live+Work project located at 10121 North Foothill Boulevard will consist of six total residential units, five of which are being designated as live/work units. The commercial component of the live/work units will be detached and will be street-facing with the residential unit provided in the rear. This project is currently being developed by Tate Development with design work by



modative, a Los Angeles based modern architecture firm. This project has a particular focus on the residential component, as the dwelling units are each 2,300 square feet and the associated commercial space is 450 square feet. It is important to note that Cupertino does not address Live/Work directly in their zoning ordinance. This project falls within a commercial zoning district and required special approval from the Cupertino City Council.

75 S. Milpitas Blvd. – Milpitas, CA

With a 3-2 vote, Milpitas' City Council approved the construction of a 25-unit townhome project as part of a Planned Unit Development at 75 South Milpitas Boulevard in January 2015. Of the 25 townhomes included in the project, five are being designated as live/work. To make way for the mostly-residential project, the developer demolished a 19,000 square foot, 2-story office



building. Unlike Redwood City, Milpitas does not have a specific zoning classification for live/work, rather live/work is a conditional use in mixed use zones. Three of the live/work units will have direct street frontage while the other two are located on the site's entry driveway.

5th Street Lofts – Oakland, CA

Located at 1155 5th Street in Oakland, California, the 5th Street lofts were originally built in 1906 and functioned as a furniture warehouse. The property was converted in 1984 by Madison Park to a 27-unit live/work building.



Pelco Lofts – Emeryville, CA

Like the 5th Street Lofts in Oakland, the Pelco Lofts in Emeryville will be a conversion of an existing industrial building to that of a live/work complex. The building, located at 1150 Park Blvd. originally housed Air Reduction California, a manufacturing company that built oxygen tanks for welding. Developers of the Pelco Lofts, SABI Design Build and Y.Q. Bomani Construction, will meet the City’s requirement of providing 50 percent of the building space as residential and 50 percent as commercial.

