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DATE: January 27, 2023
TO: Brandon Swanson, City of Carmel-by-the-Sea
FROM: Chris Blakney, ECONorthwest
SUBJECT: Housing Element Analysis for the City of Carmel-by-the-Sea

Introduction

In the State of California, local jurisdictions maintain a General Plan that serves as a blueprint for its long-term vision. Among the required "elements" of a general plan is the Housing Element. The Housing Element is the only element that state law requires be updated on a periodic cycle. The California Department of Housing and Community Development (HCD) is responsible for overseeing Housing Element updates. Every eight years, HCD allocates a share of projected statewide housing need to regions across the state. This is called the Regional Housing Need Allocation (RHNA). The state is currently in the sixth of these cycles. The sixth cycle will cover the June 30, 2023 to December 15, 2031 planning period for the City of Carmel-by-the-Sea [Carmel].

The City is a part of the Association of Monterey Bay Area Governments (AMBAG). AMBAG is responsible for developing a methodology for allocating its regional share of housing need to its individual jurisdictions. The Final Sixth Cycle (2023-2031) Regional Housing Needs Allocation plan, completed in October 2022, determined that Carmel's share of regional housing need is 349 units; 187 of these units must be suitable to accommodate lower income households. It is important to note that RHNA targets reflect zoned capacity, not a construction quota.

Figure 1: Regional Housing Needs Allocation, Fifth and Sixth Cycle
Source: California Department of Housing and Community Development[1]

Cycle	Income Level				Total
	Very Low	Low	Moderate	Above Mod.	
RHNA5 (2015-2023)	11	5	6	13	31
RHNA6 (2023-2031)	113	74	44	118	349
Sixth Cycle Income and Rent Ranges (County of Monterey)					
Income Levels	*$0 - $45,050*	*$45,050 - $72,080*	*$72,080 - $108,120*	*$108,120 +*	
Rent Level/mo	*$0 - $1,126*	*$1,126 - $1,802*	*$1,802 - $2,703*	*$2,703 +*	

While the City satisfied its Fifth Cycle RHNA planning target and received a certification for the 2015-2023 planning period, the market did not produce all 31 planned units. This underscores a considerable hurdle for the City in the Sixth Cycle which represents a 1,000% increase in its housing target for the cycle. This capacity is particularly challenging because Carmel does not have a deep supply of vacant land and presently lacks water resources to accommodate significant growth. This is further complicated by a parcelization pattern that includes many

[1] https://www.hcd.ca.gov/docs/grants-and-funding/inc2k22.pdf

small taxlots and market conditions that support high values for existing structures, making redevelopment improbable.

Executive Summary

As City officials begin to prepare for the Housing Element Update, they want to better understand some of the challenges to development and opportunities for adding housing capacity. This analysis summarizes our work exploring market conditions, observations in the City's zoning code, and sites/locations that are most likely to have development potential. While this report does not constitute a site alternatives analysis suitable for the City's Housing Element Update, it may provide insights into the development challenges, opportunities, and candidate sites for meeting the City's RHNA obligation in the Sixth Cycle.

Although renovation and replacement construction is common in Carmel, the City has had very limited net-new residential development during the Fifth Cycle (2015-2023) RHNA planning period[2]. This has been in part a function of barriers in the current zoning code, access to water rights, market conditions, and the existing development pattern in the City's commercial core. In this work, we have found that existing development standards, such as a two-story heigh limit, effectively prohibit achieving maximum allowed residential densities. Another challenge is a parcelization pattern of smaller lots with existing moderate scale commercial development with well-performing tenants. Despite these challenges, our analysis identified 17 sites in or adjacent to the commercial core that could be viable candidates for redevelopment or densification. To be sure, for development to occur on these sites—specifically development serving lower income households—the City will need to take action to remove barriers and identify resources to support financial feasibility. Actions recommended for consideration include financial subsidies, disposition of City-owned land, targeted rezoning of specific sites adjacent to the existing commercial zones, and amendments to development standards to remove development constraints.

Local Context

Carmel-by-the-Sea is a small coastal community located on the Monterey Peninsula. Incorporated in 1916, the City is among the most affluent communities in California. The City has a strong residential character and a centralized business district. Carmel's architecture in its business district has a distinct character, having been built out during the 1920s and 1930s. Over 45 properties in the commercial district are considered historical resources.

Carmel is also a popular coastal tourism and second home destination. There are over three dozen hotels in Carmel and roughly 40 percent of all housing units are for seasonal, recreational, or occasional use—a rate ten times the national average.[3] This dynamic has created a housing market that severely lacks affordability. Forty-seven percent of all households that

[2] According to Carmel's most recent Annual Progress Report to HCD.

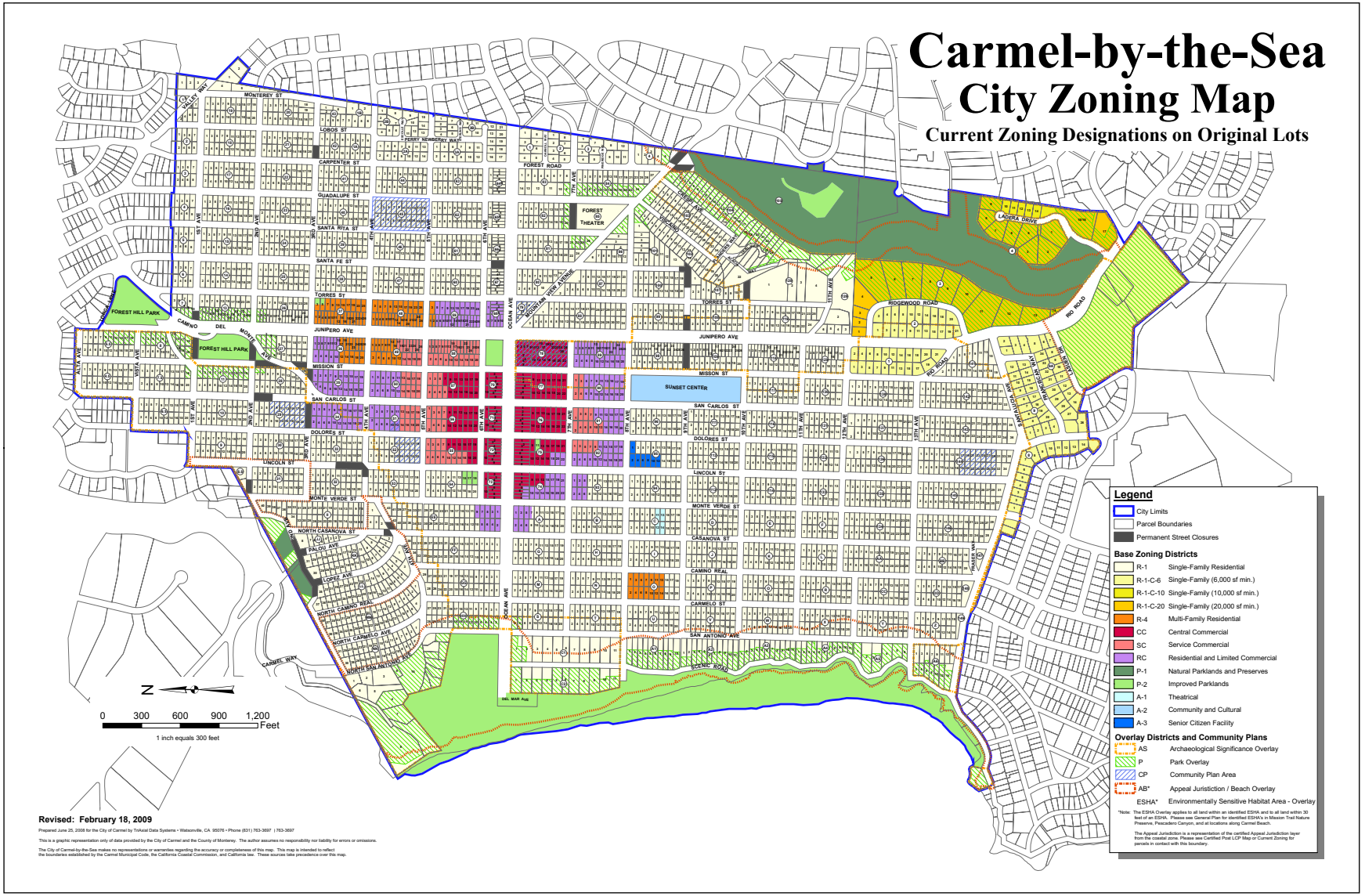
[3] U.S. Census Bureau. American Community Survey 5-Year Estimates (2016-2020); Table B2004. (See https://data.census.gov/)

rent (vs. own) their homes in Carmel are cost burdened, spending greater than 20 percent of their income on housing. Among these, a full 25 percent of renter households are severely cost burdened, spending 50 percent or more of their income on housing. 2,102 individuals work in Carmel, of whom only 2.6 percent live in Carmel.[4]

[4] U.S. Census Bureau Longitudinal Employer-Household Dynamics Data (See https://lehd.ces.census.gov/)

Figure 2: Carmel-by-the-Sea Zoning Map on Original Plat

Source: City of Carmel-by-the-Sea (see https://planningsites.org/CarmelPlanning/)



Site Visit

In June 2022, City staff hosted a walking tour of the village. The purpose of this exercise was to observe the characteristics of the built environment and evaluate the potential of City-owned sites to accommodate development of housing. Key themes from this visit include:

Height. The City's current code has a two-story height limit. However, there are many older structures throughout the commercial core that are taller than two stories and are adjacent to single- or two-story buildings.

Interior Courtyards. One of the unique characteristics of Carmel's built environment is the network of interior courtyards and intra-block passageways that connect businesses. Residents and visitors are encouraged to explore these interior areas behind business frontages and facades.

City-Owned Sites. The City owns several sites across the village. In addition to larger and potentially underutilized sites in the downtown core, it owns a series of sites that are unimproved street rights-of-way.

Sunset Center North and South Lots. If on-site parking could be accommodated, the north lot of the Sunset Center could be a redevelopment candidate. The South Lot may also be explored for development potential.

Topography. Some areas within and on the periphery of the commercial district have steep slopes. These areas could be opportunities for development with tuck-under parking.

Low density retail in commercial district

Example of interior courtyard

Ulrika Plaza at 5th and Dolores

Example of City-owned ROW site

Sunset Center North Lot

Example of underutilized parking

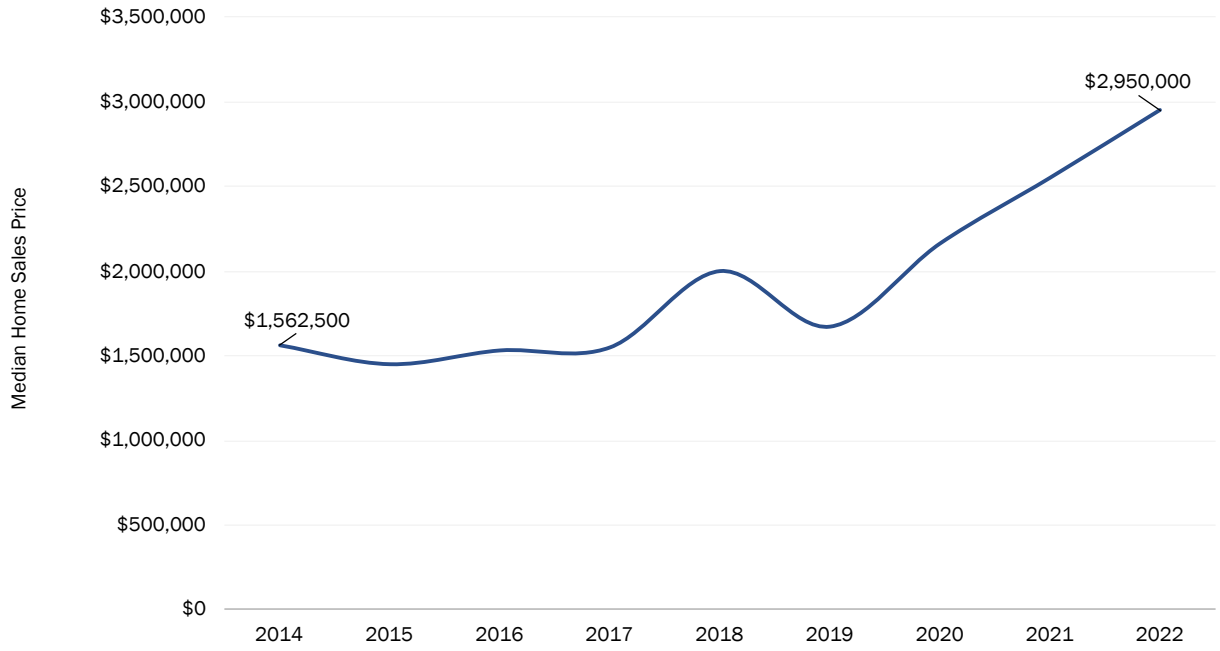
Market Overview

The ability of the market to deliver housing production in the future is largely a function of existing market conditions. An observation of socioeconomic conditions also informs housing need in the community.

For-Sale Market

Following several years of relative stability, the price of homeownership in Carmel has accelerated rapidly in recent years. Since 2019, the median home price in Carmel has jumped from $1.6 million to $2.95 million, an increase of 84 percent.[5] Price increases are being driven by demand-side forces.

Figure 3: Median Home Price
Source: Property Radar[6]



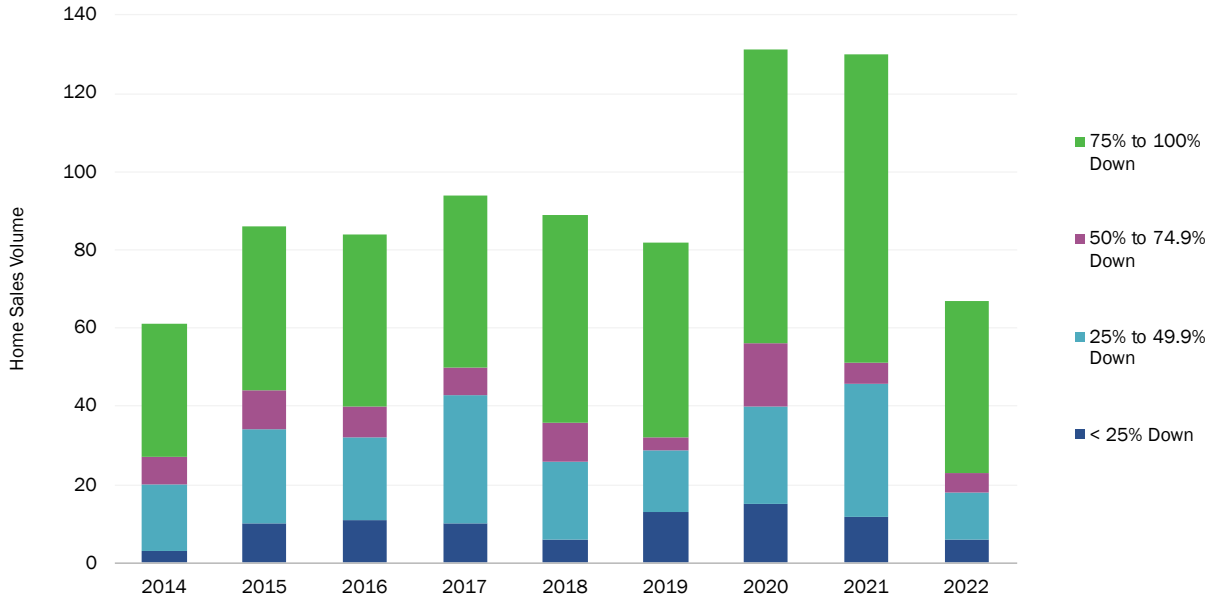
Over this same period, there has been an acceleration of both sales volume and the share of homes that are purchased all cash or with mostly cash. For example, in 2020 and 2021 sales volumes were 50 percent higher than the previous five-year average. Moreover, the percentage of home sales with 75 percent to 100 percent cash down increased from 53 percent to 61 percent through the first half of 2022. This is indicative of a market that is attracting outside capital from other high-value markets. In the context of observed migration patterns in Northern California because of the COVID-19 pandemic, we suspect that much of the movement in the market is being driven by migration of high-net-worth households out of the Bay Area. This is observed

[5] Property Radar. (See https://www.propertyradar.com/) Data reported through most recent period available

[6] Property Radar. (See https://www.propertyradar.com/) Data reported through most recent period available

in migration data from the U.S. Postal Service that shows that since March 2020 Carmel has seen a migration-driven increase of 552 households.[7]

Figure 4: Sales Volume and Percent of Purchase Price in Cash
Source: Property Radar[8]



Second-Home Market

Tourism and the impacts of second homes and long-term rentals are also having an observed impact on affordability in Carmel.[9] Data from the U.S. Census Bureau shows that nearly 40 percent of all housing units are used for seasonal, recreational, or occasional use. This rate is ten times the national average.

Figure 5: Share of Housing Units that are Second Homes
Source: U.S. Census American Community Survey (2016-2020 estimates); Table B25004[10]

	Nation	Carmel
Total housing units	138,432,751	3,731
For seasonal, recreational, or occasional use	5,303,302	1,479
Share of housing units that are second homes	3.8%	39.6%

[7] USPS Change-of-Address Migration Data
https://www.arcgis.com/apps/dashboards/951428e32723456c879d0966af4baa8a

[8] Property Radar. (See https://www.propertyradar.com/)

[9] Short-term rentals are not permissible as per CMC 17.08.060 and CMC 17.14.040. (See https://www.codepublishing.com/CA/CarmelbytheSea/html/Carmel17/Carmel1708.html)

[10] U.S. Census American Community Survey (2016-2020 estimates); Table B25004. (See https://data.census.gov/)

Renter Market

Reliable real-time market data on the local rental market is challenging to obtain because the majority of the rental market is organized through individual transactions, small property management firms, and in some cases informal agreements. Figure 6 below demonstrates that tenure split (owner vs. renter-occupied) in Carmel is roughly equal. However, a full 78 percent of the rental market is being met by single-family housing units (rather than apartment buildings), typically rented out by individuals as opposed to large property management firms.

Figure 6: Tenure (Rent vs. Own) by Units in Structure in Structure

Source: U.S. Census American Community Survey (ACS) (2016-2020 estimates)[11]

Note: Tenure refers to whether a unit is occupied by someone who owns the unit (owner-occupied) or rents the unit (renter-occupied).

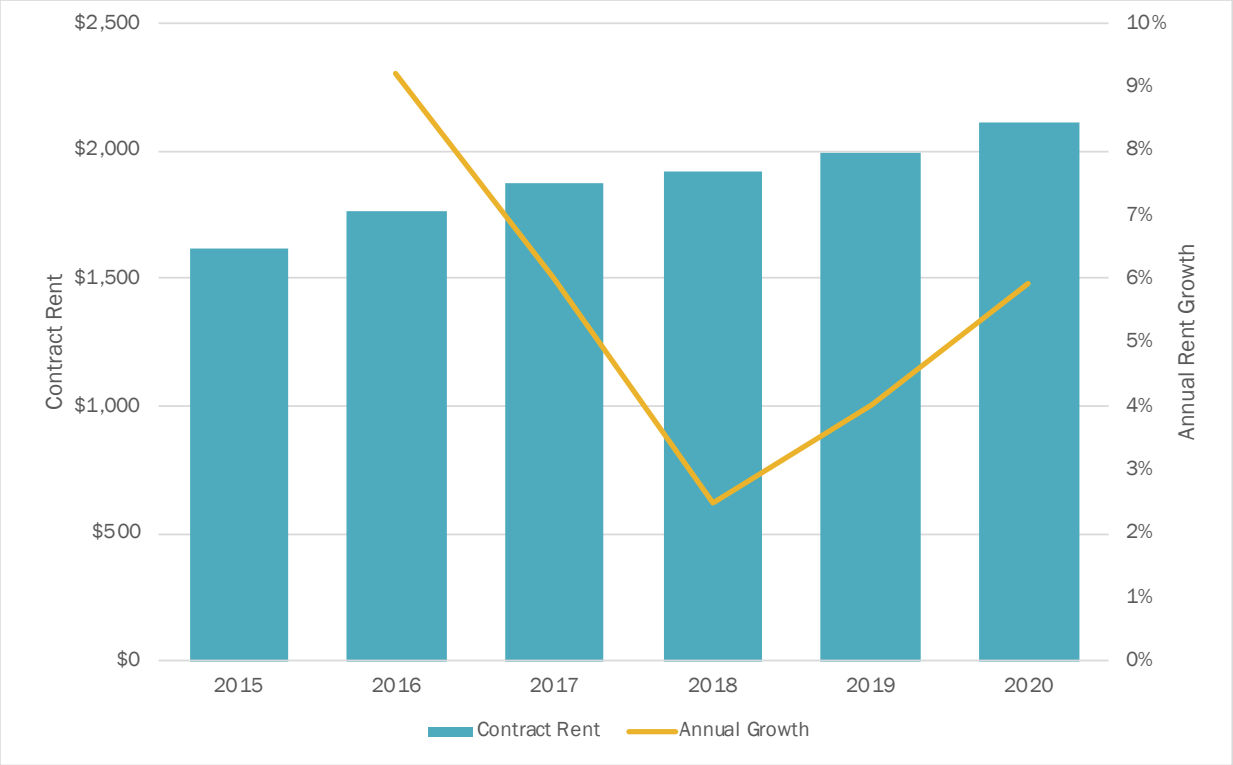
Unit Type	Owner-Occupied	Renter-Occupied	Total
Single-family Detached	993	694	1,687
Single-family Attached	0	19	19
Duplex	0	0	0
Triplex/Quadplex	0	22	22
Small Multifamily (5-19 units)	0	162	162
Large Multifamily (20+ units)	0	0	0
Mobile Homes[12]	0	19	19
Total	**993**	**916**	**1,909**
Tenure Split	*52.0%*	*48.0%*	

In Figure 7 below, we report annual contract rent reported for the market by the U.S. Census Bureau's American Community Survey. We consider "average" rent levels reported in the survey to be considerably lower than where rental properties transact at in the market based on observations of current rent levels. However, this data is showing the expected trend of accelerated rent growth over the last two observation years.

[11] U.S. Census American Community Survey (2016-2020 estimates). (See https://data.census.gov/)

[12] The U.S. Census uses survey data across a five-year period to produce estimates across a broad range of demographic and socioeconomic variables in the American Community Survey (ACS). Because the ACS uses survey data to develop estimates, results can be unintuitive and have larger margins of error in smaller geographies. See https://www.census.gov/programs-surveys/acs/methodology.html for a review of the Census Bureau's methodology for the ACS.

Figure 7: Annual Contract Rent
Source: U.S. Census American Community Survey (5-year estimates from 2015-2020)[13]



Cost Burden

State and federal standards specify that households spending more than 30% of gross annual income on housing experience a housing cost burden. Housing cost burdens occur when housing costs increase faster than household income. When a household spends more than 30% of its income on housing costs, it has less disposable income for other necessities, including health care, food, education, and clothing. In the event of unexpected circumstances such as the loss of employment or serious health problems, lower-income households with a burdensome housing cost are more likely to become homeless or be forced to double-up with other households. Homeowners with a housing cost burden have the option of selling their homes and becoming renters. Renters, on the other hand, are vulnerable and subject to constant changes in the housing market.

In Carmel, 47 percent of all households that rent their homes are cost burdened, spending greater than 30 percent of their income on housing. Among these, a full 25 percent of renter households are severely cost burdened, spending 50 percent or more of their income on housing.

Figure 8: Percent of Income Spent on Rent, City of Carmel-by-the-Sea (2020)
Source: American Community Survey 2016-2020 Five-Year Estimate (Table B25070)[14]

Income on Rent	Households	Share

[13] U.S. Census American Community Survey (5-year estimates from 2015-2020). (See https://data.census.gov/)

[14] American Community Survey 2016-2020 Five-Year Estimate (Table B25070). (See https://data.census.gov/)

Less than 10.0 percent	153	16.7%
10.0 to 14.9 percent	49	5.3%
15.0 to 19.9 percent	182	19.9%
20.0 to 24.9 percent	63	6.9%
25.0 to 29.9 percent	39	4.3%
30.0 to 34.9 percent	61	6.7%
35.0 to 39.9 percent	70	7.6%
40.0 to 49.9 percent	70	7.6%
50.0 percent or more	229	25.0%
Total:	916	100.0%

Commute Patterns

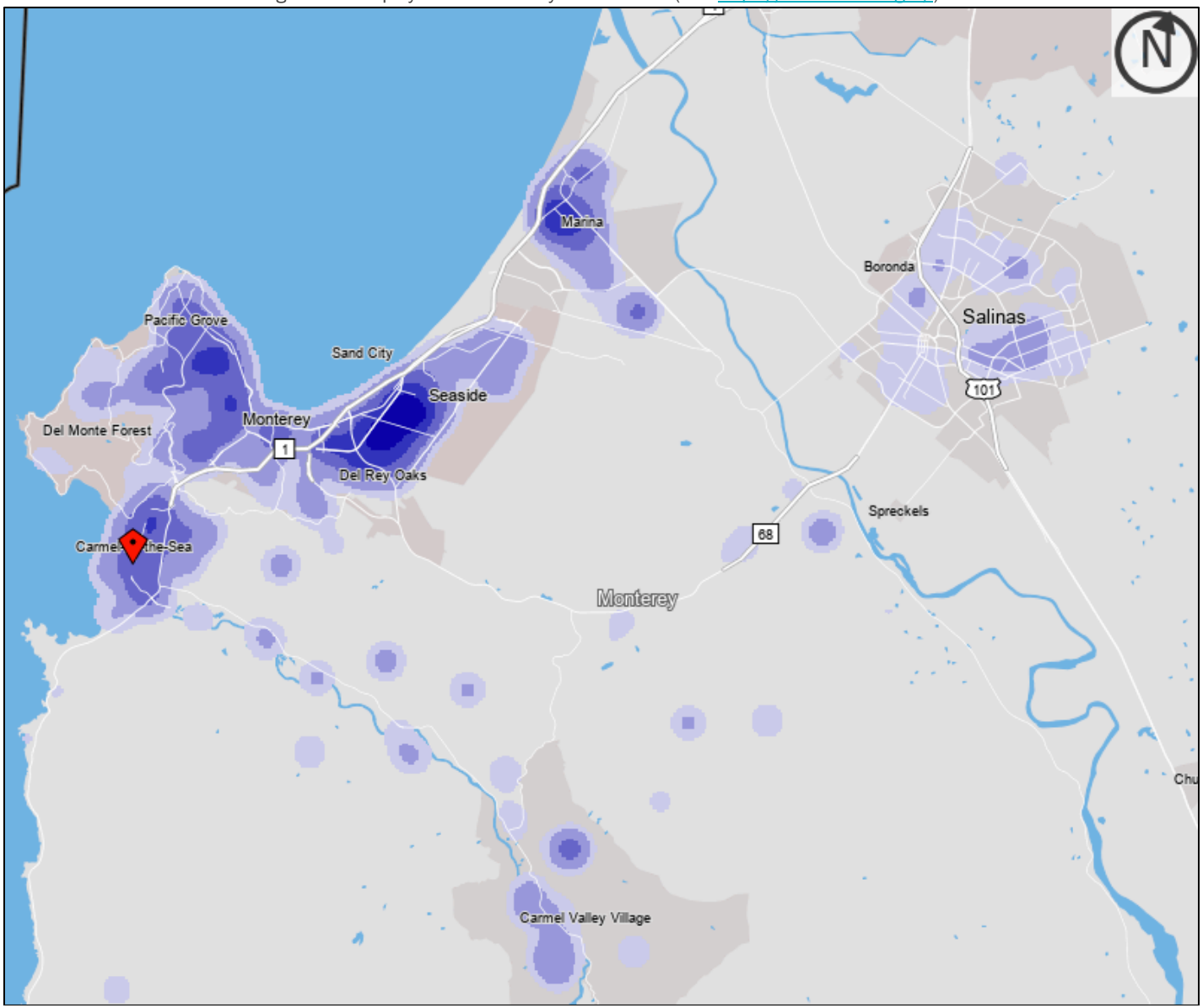
It is hypothesized that Carmel's concentration of jobs in the leisure and hospitality sector creates challenges for local workers who do not have sufficient incomes to afford housing in the community. This imbalance of jobs to housing impacts quality of life including how far workers must travel for work, increasing transportation costs, and reducing individual productivity. In general, a good balance of jobs to housing would occur where the jobs available in a community match the labor force skills, and where housing is available at prices, sizes, and locations suited to workers who wish to live in the area.

In Carmel, roughly half of all workers live within 10 miles of the city. Primary areas where workers live include Seaside, Monterey, Salinas, and Pacific Grove. A full 26 percent of workers commute from greater than 25 miles away. Only 2.6 percent of workers live and work in Carmel.[15]

[15] U.S. Census Bureau Longitudinal Employer-Household Dynamics Data (See https://lehd.ces.census.gov/)

Figure 9: Commute Patterns, Where Employees in Carmel Live (2019)

Source: U.S. Census Bureau Longitudinal Employer-Household Dynamics Data. (See https://data.census.gov/)



Code Review

As part of our scope, we conducted a code review to identify potential issues and barriers that could limit housing production in the Multifamily Residential (R-4) district and the commercial zones; Residential and Limited Commercial (RC) Central Commercial (CC), and Service Commercial (SC).

General Notes

- The pattern of existing development is small lot (3,800-6,000), detached single-family. Most new development will be infill.
- Multifamily is defined as any development with two of more units on the same lot.

Building Height in All Zones

Building height throughout the city is limited to two stories, with maximum heights established for each zone. CMC 17.14.150.B-C establishes maximum building heights for the R-4[16], RC, SC, and CC zones. Structures in R-4 and RC zones are limited to 26 feet and structures in the CC and SC zones are limited to 30 feet. Building sites which face, abut or adjoin any property in the R-1 district are limited to a height of 24 feet. Building height may also be determined by compatibility with nearby structures facing the same street or intersection and within the same pedestrian field of view (i.e., generally, within 100 feet to either side of, or across the street from the proposed structure).

Given the existing small lot sizes observed throughout the city and off-street parking requirements (discussed in more detail below for the R-4 zone), a two-story maximum height will likely prohibit many multifamily projects from achieving base density allowances in the R-4 zone. Building height limitations, maximum building coverage, and floor area ratio (F.A.R) limitations (discussed in more detail below) will even more severely limit multifamily projects from achieving base density allowances in commercial zones, even if parking requirements are lower than in residential zones.

R-4 Development Standards

Density

CMC 17.12.020.B establishes a maximum base density of 33 du/ac, and CMC 17.12.020.C offers a density bonus of 44 du/ac in exchange for affordable units. While these density thresholds are relatively high, they are difficult to achieve given the City's inventory of small lots between roughly 3,800-6000 square feet, with lot widths around 50-60 feet and two-story building height maximum. Off-street parking requirements will further limit the ability to achieve base density.

Given the site constraints and a need for many developments to achieve base density for financial reasons, it is unlikely developers will be able to take advantage of the density bonus

[16] Underground parking does not count as a story in the R-4 zone.

since their ability to achieve the *base* density is already constrained. If the density bonus was offered in another story, rather than du/ac, it could help reduce barriers and allow more housing production on smaller sites.

Parking

CMC 17.38.020 requires 1.5 parking spaces per residential dwelling unit and offers reduced parking standards for affordable units (0.5 spaces per unit) in the R-4 zone. CMC 17.12.020.F.1 prohibits parking requirements in the R-4 zone to be met on-street or through a fee-in-lieu.

Providing parking onsite while achieving the allowed density will be a challenge for many development sites given that many of the existing lots in the city are only 50-60 feet wide. While underground parking is allowed and does not count against the maximum building height, underground parking is far more expensive to construct. Reducing parking standards for certain areas (i.e. areas with access to transit or walkable to commercial districts) or for unit types (i.e. studios and one-bedrooms) may help developments achieve base densities.

Unit Distribution

CMC 17.12.020 requires that on sites larger than 4,000 sf, 50 percent of all units must be provided as rental apartments.

CMC 17.08.050.F. requires at least 25 percent of all units in a multifamily project containing more than two units be between 400-650 square feet. While this provision on its own is not necessarily a barrier to housing development, parking standards for these small units are the same as a single-family home. Reducing the parking standard for smaller multifamily units will help developments to achieve density more easily.

Commercial Zone Development Standards

Building Coverage

CMC 17.14.130.A. limits building coverage to 80 percent in the CC and SC zones.[17] The existing pattern of development in these two zones appears to exceed 80 percent building coverage on many parcels. Additionally, the code prohibits the removal of existing courtyard or intra-block walkways, which will further limit the amount of allowable building coverage on some sites.

Since the land costs in Carmel-by-the-Sea are exceptionally high, these maximum building coverage requirements will likely act as a development barrier. This becomes even more of a challenge in the context of redevelopment where the existing structure exceeds 80 percent building coverage. New developments may be required to build a smaller building than previously existed.

[17] Exceptions are granted up to 95 percent.

Floor Area Ratio

CMC 17.14.140.A-B establish F.A.R limits for the commercial zones. One-story buildings in the CC and SC zones are allowed to achieve an F.A.R equal to 95 percent of the site area. However, this contradicts the allowed building coverage discussed above (80 percent), excluding the exceptions. Two-story buildings can obtain an F.A.R equal to 135 percent of the site area, which further limits the allowed square footage outside of the building coverage maximums, as either the first or second story would need to be smaller than the other to meet this F.A.R. For example:

- A 5,000 square foot lot is allowed a maximum of 4,000 square feet in building coverage, which could translate to about an 8,000 square foot building if the two stories were of equal size. However, two-story buildings are limited to 135 percent of the total site area.
  - 135 percent of the total site area is 6,750 square feet. The F.A.R requirements reduces the potential square footage by approximately 1,250. This lost square footage could translate into roughly two additional apartment units.
  - However, if using a density bonus the limit would be 150% of the total site area, reducing the amount of lost square footage for project utilizing a density bonus.

The restriction is even more severe in the RC zone adjacent to the Single Family Residential (R-1) zone, where F.A.R requirements limit two-story buildings to 80 percent of the total site area. For example:

- A 5,000 square foot lot could result in a maximum building coverage of 3,500 (70 percent), so two stories of the same size could render a 7,000 square foot building.
  - With F.A.R. limited to 80 percent of the total site area for two-story structures, this limits the building to 4,000 square feet. This represents a loss of about 3,000 square feet.
  - Like the example above, the loss of square footage is reduced if a project can capitalize on a bonus.

F.A.R. bonuses are available for projects that include affordable housing, courtyards, and/or intra-block walkways.

Review Processes and Additional Studies

The City should be mindful of how additional procedures and studies can add time and cost to projects that are facing unprecedented cost escalations in the current economic environment. For example, CMC 17.08.050.F.1 requires all multifamily projects to prepare an acoustical analysis and the implementation of acoustical design treatments to meet noise standards contained in Title 25 of the California Government Code. While this is not a barrier to development on its own, it does require a small amount of time and cost to the development process. Cumulatively, review processes can add up to be a significant barrier to development and the City should endeavor to streamline review and approvals wherever possible.

The City also requires conditional use permits for certain residential developments in all zones (i.e. developments over 22 du/ac). The City's standard practice is to process approvals concurrently where possible; but removing this additional process could reduce extra steps and cost in the development process for both City staff and applicants, while eliminating the additional cost of preparing a conditional use application.

High-Level Sites Analysis

In its forthcoming update to the Housing Element of the General Plan, the City will be required to identify physical sites that have the zoned capacity to accommodate its share of regional housing need (349 units). The State agency (Housing and Community Development "HCD") responsible for oversight and certification of the Housing Element has specific requirements for this analysis. It is beyond the scope of this project to conduct a full HCD compliant alternative sites analysis. And the sites included in this review is unlikely to be an exhaustive list of candidates. It likely also includes candidates that future study my find less viable. However, as a precursor to the Housing Element Update, we provide a high-level overview of potential candidate sites. In our methodology we combine anecdotal context through conversations with local developers and property owners alongside a range of variables that are theoretically indicative of redevelopment potential. These include:

- Historic resources
- Sites with adjacent ownerships
- Sites identified in RHNA5
- Land-to-improvement ratio
- Total value per-square-foot
- Sites with high value uses
- Discussions with developers
- Site visit and spot checking

Defining a Study Area

Housing redevelopment generally requires scale to be financially feasible because the value of the new use must be measurably higher than the existing use. Scale is a function of site size and allowed density. Under the existing zoning code, only the R-4 and commercial zones allow multifamily development. For this reason, the focus of this work is on the commercial core, defined in Figure 11.

Conservation District

The purpose of the Conservation District (codified in 2004) is to "recognize that Ocean Avenue and the commercial properties that surround this corridor contain some of the most memorable and important commercial buildings in Carmel".[18] The district includes special procedures that influence the development and design context for properties in the district. While we did not consider all properties in the district to be infeasible, the additional development and design standards add an additional layer of complexity to redevelopment potential.

[18] Carmel Municipal Code § 17.20.260. (See https://www.codepublishing.com/CA/CarmelbytheSea/html/Carmel17/Carmel1720.html)

Figure 10: Zoning Map; Carmel-by-the-Sea

Source: City of Carmel-by-the-Sea

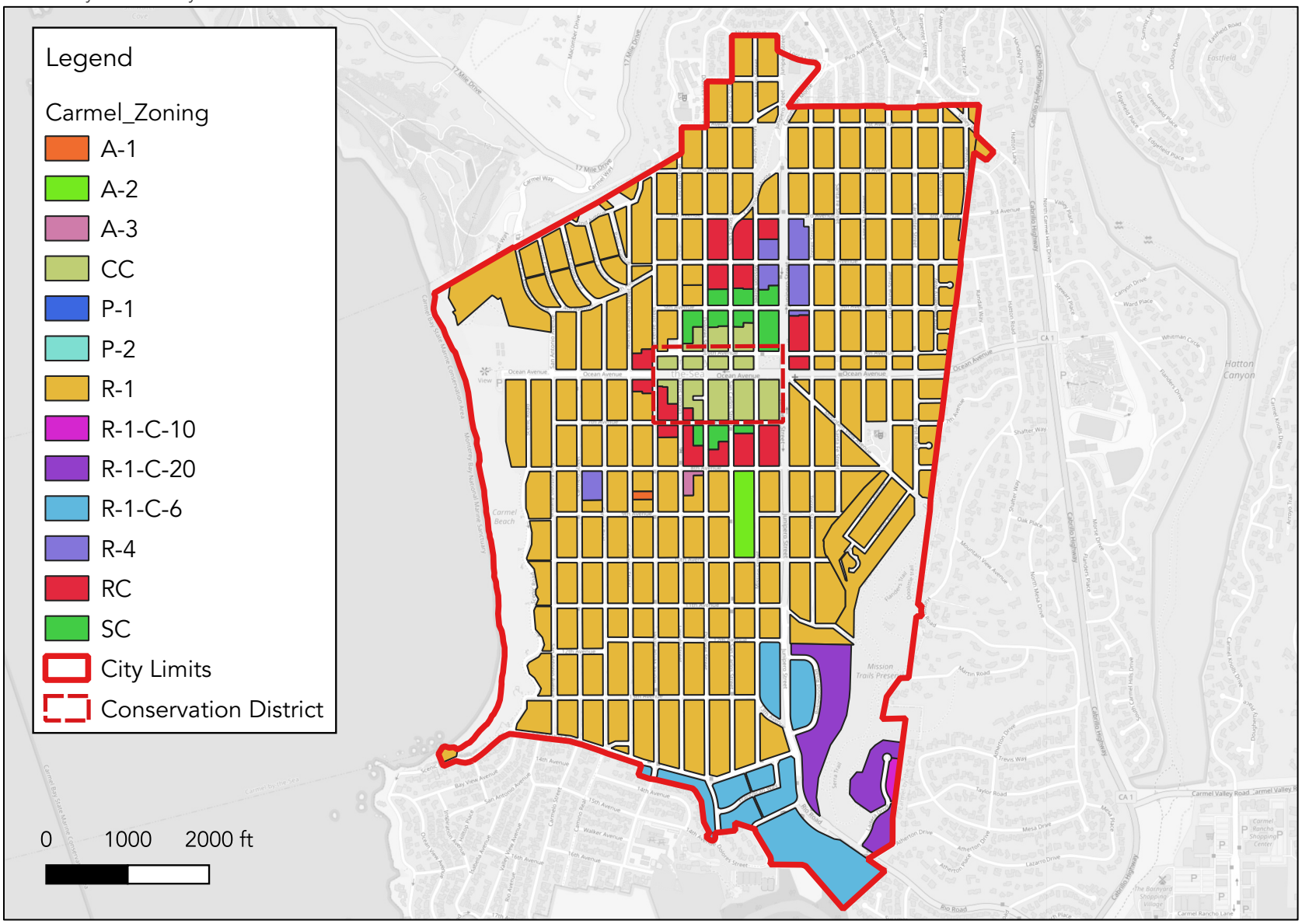
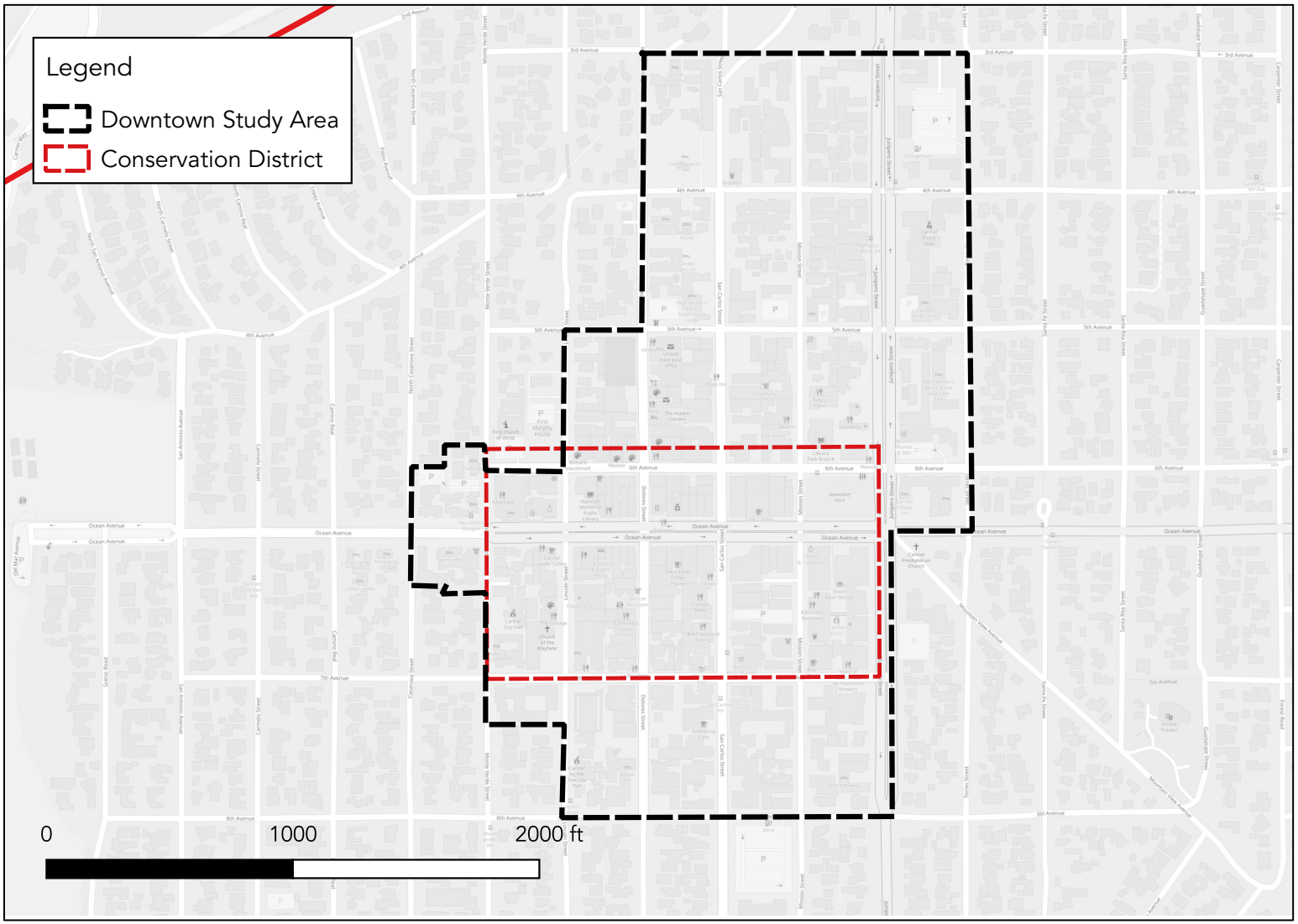


Figure 11: Commercial Core Study Area Definition

Source: ECONorthwest



Historic Resource Properties

The project study area includes 45 properties that are identified as historic. All but seven of these are in the Conservation District (see Figure 12). While we did not omit historic resource sites from being considered redevelopment candidates outright, redevelopment or renovation of historic resource sites will have an additional layer of complexity, as projects will need to meet the Secretary of the Interior's Standards for Rehabilitation.[19]

Properties Omitted Due to Existing Use

In this step we removed properties from consideration that have clear uses that would be a barrier to redevelopment, regardless of the redevelopment economics of the physical sites (see Figure 13). This included a removal of civic and institutional uses such as City Hall, libraries, parks, and open space. It also removed all attached ownership sites (such as condominiums) because assembling ownerships of these properties is nearly impossible. Lastly, we removed sites with businesses where the likely income generating potential of the use was high relative to the real estate asset (such as hotel properties). Due to Carmel's tourism draw, even a 2-star hotel commands room rates well above average for the class. Conversations with City staff and local developers further suggested that it would be highly unlikely that any hotel property in the commercial core would fully redevelop or reposition to permanent housing. However, there is opportunity to add workforce housing capacity through programs that convert a single hotel room to an on-site managers uint.

Fifth Cycle (RHNA5) Housing Element Sites

Carmel's Fifth Cycle Housing Element was adopted in 2015. This document includes an inventory of sites that were identified at the time as the most likely to accommodate future housing need (see Figure 14). The analytical process to identify these sites is established and findings certified by the State Department of Housing and Community Development (HCD).

Adjacent Ownerships

Sites that can obtain scale through size and density generally have a higher likelihood of redevelopment. Larger sites offer greater flexibility and fewer barriers. Often, two or more sites adjacent to each other that are both underutilized can be combined to make more feasible development site. However, assemblage of multiple ownerships can be a barrier. In this step we used ownership data in Assessor's records to identify properties that are adjacent to each other but have the same owner (see Figure 15). If they meet other redevelopment criteria, these sites are more likely to redevelop.

[19] Secretary of the Interior's Standards for Rehabilitation. (See https://www.nps.gov/subjects/taxincentives/secretarys-standards-rehabilitation.htm)

Figure 12: Historic Resource Properties

Source: City of Carmel-by-the-Sea.

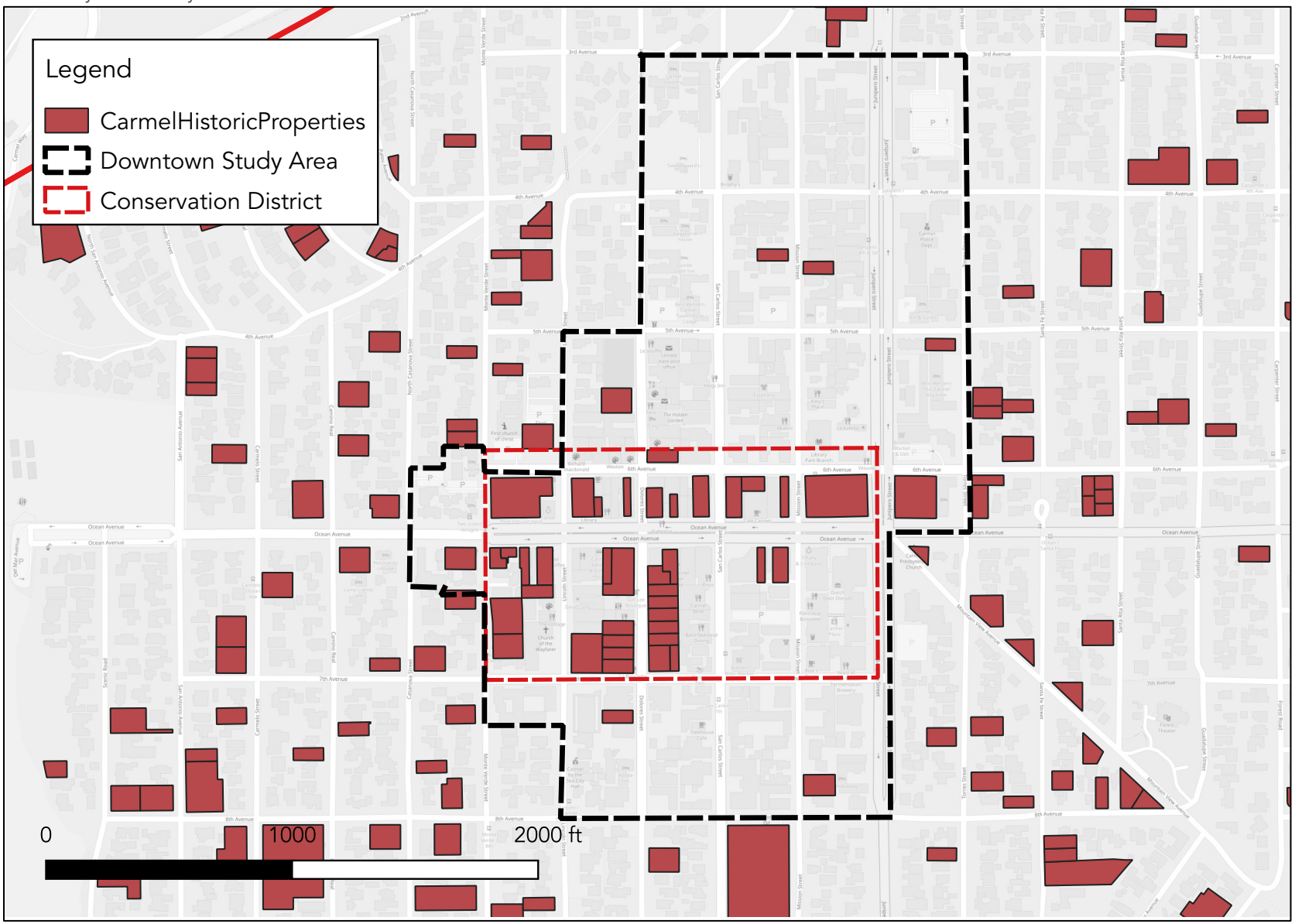


Figure 13: Omitted Properties do to Existing Use

Source: ECONorthwest

Figure 14: RHNA5 Sites in the Commercial Core

Source: Carmel-by-the-Sea Fifth Cycle Housing Element, Digitized by ECONorthwest

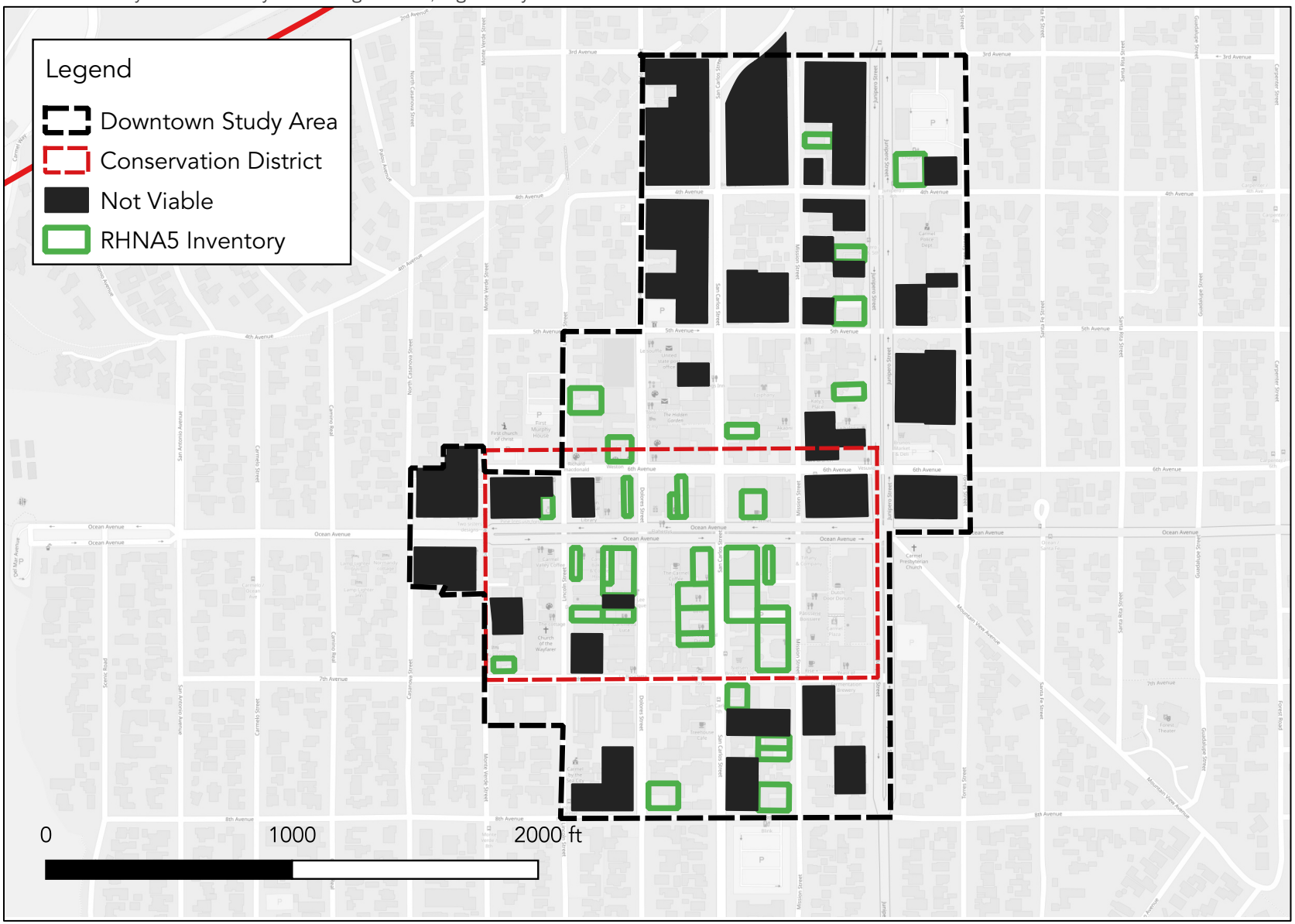
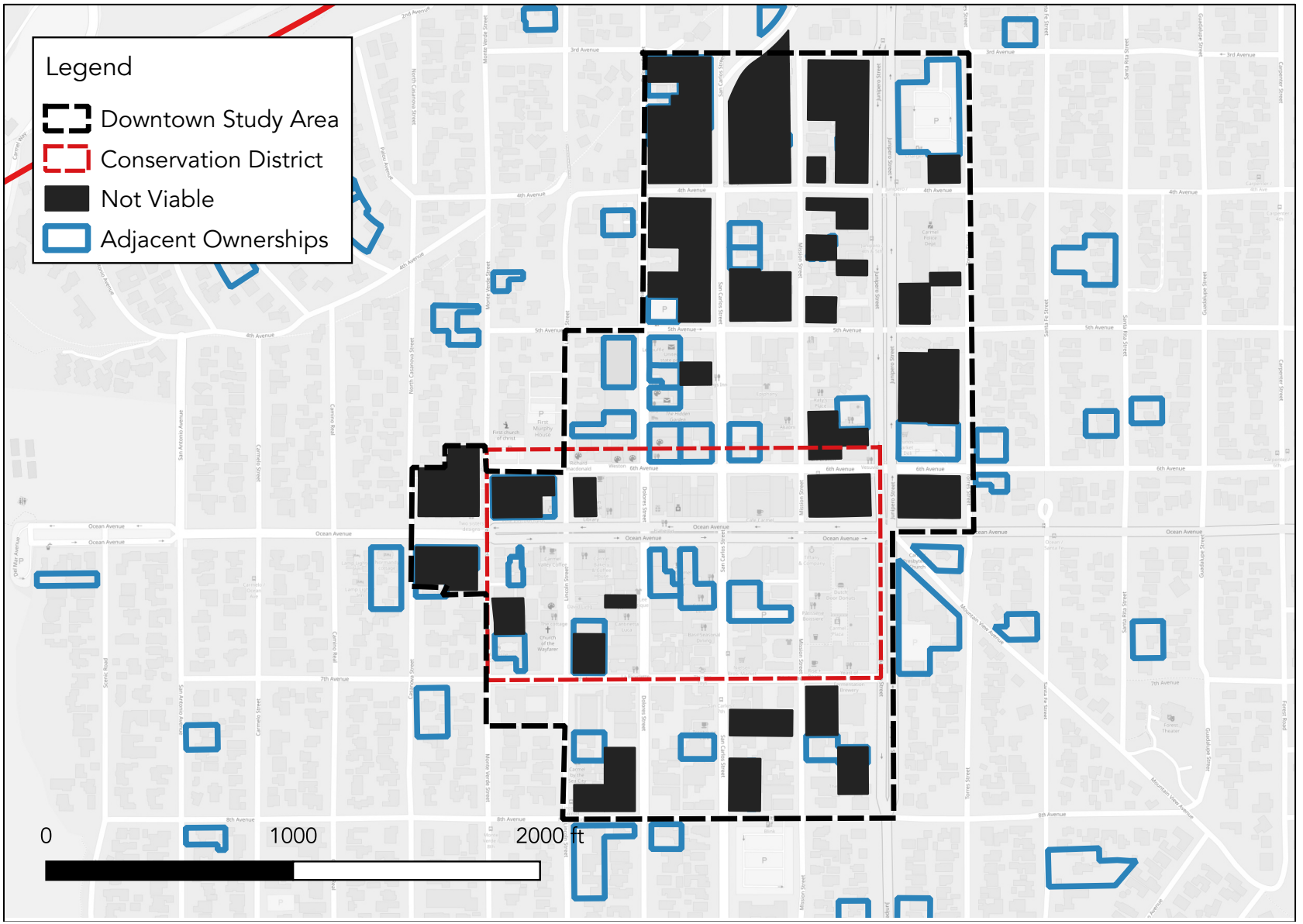


Figure 15: Sites with Adjacent Ownerships

Source: ECONorthwest



Land-to-Improvement Ratio

Land-to-Improvement ratio is a metric that compares the value of an improvement on a property to the value of the land using data from the Monterey County Assessor's Office. Theoretically, the more valuable land is compared to improvements on a site, the more likely the site is to redevelop (see Figure 16).

Data Limitations

The land-to-improvement metric and the value per-square-foot metric (below) use assessed value as reported by the Assessor. Assessor's data can deviate broadly from real market value in California due to Proposition 13 which limits the annual increase in assessed value to 2 percent until a property transacts. While the ratio of improvement and land value should be more stable, properties that have not transacted for a long time could provide misleading results. For this reason, we consider these metrics alongside all other variables and in conjunction with site/spot checks.

Total Value Per-Square-Foot

In development economics the term "residual land value" is defined as the maximum value that a developer can pay for a site for a given development program. It is influenced by a range of factors including construction costs, development form, market conditions, and the developer's threshold for rate of return, among other factors. It was beyond the scope of this work to do feasibility testing that would calculate actual residual land values. However, we know that the more expensive it is to acquire sites, the less likely development is to be feasible. Therefore, identifying sites in the study area with the lowest combined value (land plus improvements) relative to the size of the site can be an indicator of redevelopment potential (see Figure 17).

Candidate Site List

We combined the analysis above with an in-person site visit, visual assessment using aerial and streetscape photography, and conversations with local representative to develop an inventory of candidate sites that could have redevelopment potential. In addition to properties within the study area, we also evaluated sites adjacent to the commercial core that could be candidates for future rezoning to allow more housing density. Each site is briefly discussed below Figure 18.[20]

[20] Sites are not listed in any particular order of prioritization

Figure 16: Land-to-Improvement Ratio

Source: ECONorthwest using Monterey County Assessor's Data

Figure 17: Total Value Per-Square-Foot

Source: ECONorthwest using Monterey County Assessor's Data

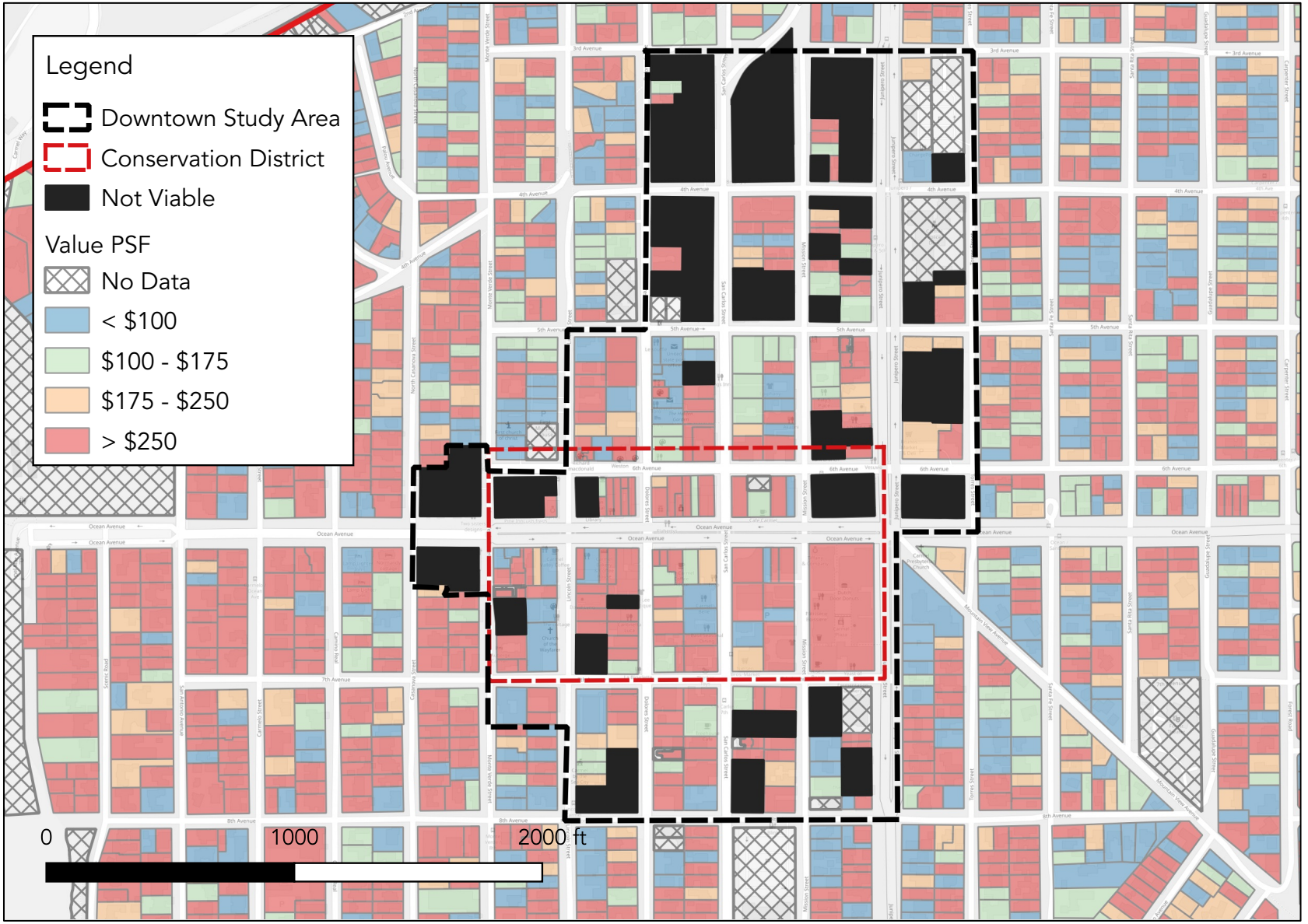


Figure 18: Candidate Site List

Source: ECONorthwest

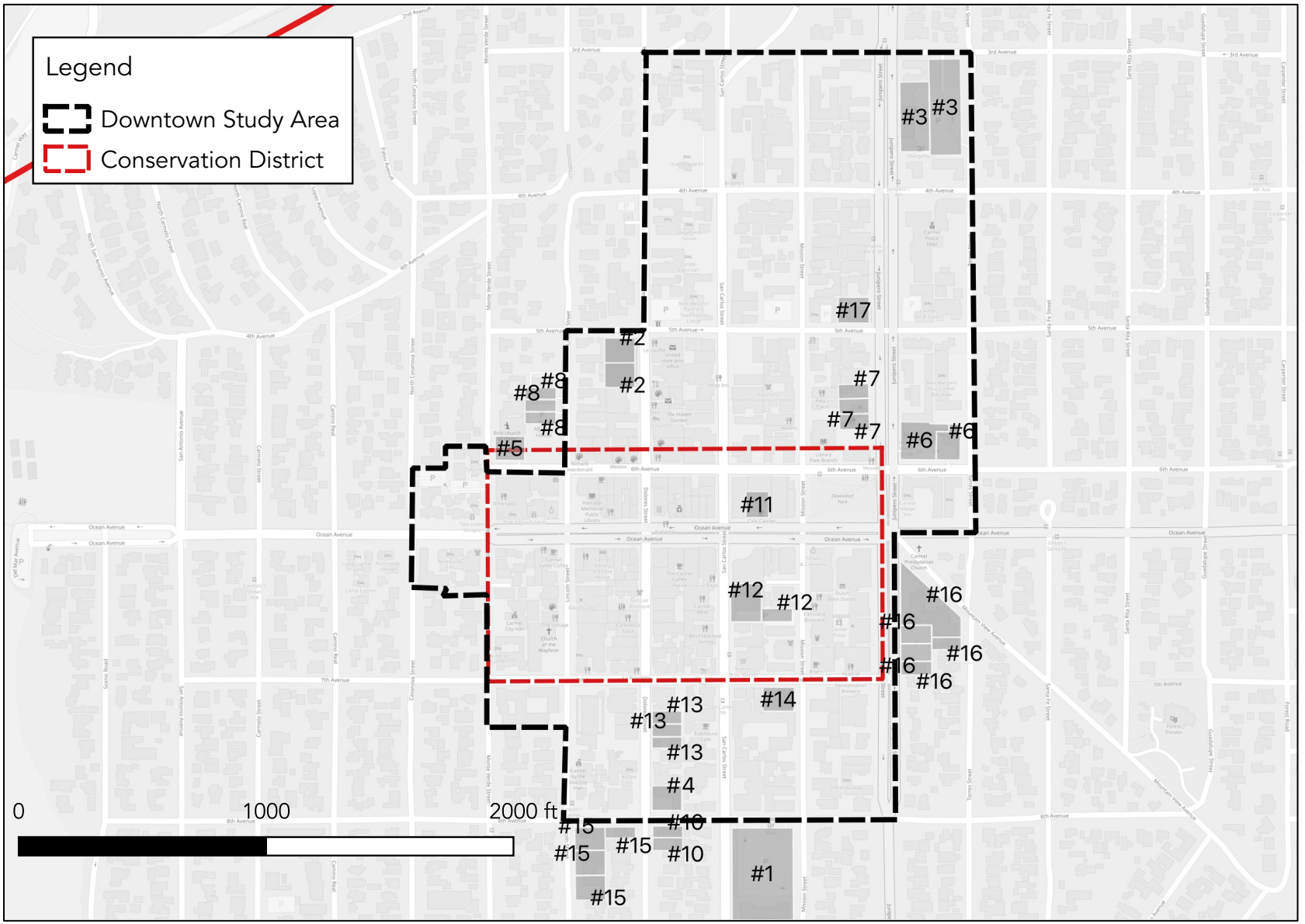


Figure 19: Data Table of Candidate Sites

Source: City of Carmel-by-the Sea Planning Department

Site ID	APN	Zoning	Lot Size	Acres	Max units @ 22 DUA[21]	Max Units @ 44 DUA[22]	Max Units @ 88 DUA[23]
#1	10143001000	A-2	90,084	1.02	22	45	90
#2	10138003000	SC	7,913	0.37	8	17	33
	10138021000	SC	7,949				
#3	10104001000	R-4	32,136	1.28	28	57	113
	10104004000	R-4	21,576				
#4	10145008000	RC	7,878	0.18	3	8	16
#5	10212010000	R-1	7,637	0.18	3	8	16
#6	10095013000	RC	15,313	0.53	11	24	47
	10095012000	RC	8,027				
#7	10098005000	SC	4,871	0.33	7	15	30
	10098004000	SC	4,676				
	10098006000	SC	4,901				
#8	10212027000	R-1	4,014	0.28	6	13	25
	10212004000	R-1	4,004				
	10212026000	R-1	3,994				
#10	10144015000	R-1	4,155	0.18	3	8	16
	10144016000	R-1	3,738				
#11	10133004000 (Example)	CC	6,398	0.14	3	7	13
#12	10141006000	CC	12,520	0.38	8	17	34
	10141011000	CC	4,377				
#13	10145012000	SC	3,632	0.30	6	14	27
	10145024000	SC	4,030				
	10145023000	SC	4,118				
#14	10142001000	SC	8,009	0.18	3	8	16
#15	10149012000	A-3	7,435	0.62	13	28	55
	10149010000	A-3	7,964				
	10149011000	A-3	7,985				
	10149001000	A-3	3,615				
#16	10084030000	R-1	26,874	1.10	24	49	97
	10084023000	R-1	5,822				
	10084024000	R-1	6,016				
	10084022000	R-1	4,496				
	10084003000	R-1	3,856				
#17	10097007000		8,534	.020	4	9	18
			TOTAL:	**7.27 acres**	**152 units**	**327 units**	**646 units**

[21] Permitted by-right. No affordable requirements

[22] 20% of units must be for low-income households OR 10% must be for very low-income households OR 50% must be for seniors. All units must be deed restricted for a minimum of 30 years.

[23] All units must be deed restricted affordable for a minimum of 30 years.

Site 1: Sunset Center Lots Site

The north lot at Sunset Center is a large (1.02 acre) parking lot with no improvements other than paving. It is a City-owned site. The City has expressed interest in redeveloping the site for housing so long as parking needs for Sunset Center could be accommodated in the development program. A zone change from Theatrical District (A-2) to Multifamily Residential (R-4) would be required to facilitate development of the site. The south lot could also be viable, but larger scale development may not be as compatible with existing residential development scale this far removed from the commercial core.

Site 2: Ulrika Plaza Site

The 0.37-acre Ulrika Plaza site previously entitled as a mixed-use building. The initial developer lost the project for financial reasons, and it was acquired by another developer. This developer has been working to get a development program for 12 market-rate apartment units approved on the site for several years. The site is a case study of a development not building to maximum density.

Site 3: City Public Works (Vista Lobos) Site

This is a City-owned site totaling 1.28 acres at the north end of the study area. The site is a large parking lot with low value improvement used for public parking. The City has expressed interest in using the site for housing if feasible. Potential height restrictions due to a protected viewshed to Point Lobos (see CMC 17.12.050) could limit achievable density and feasibility.

Site 4: Carmel Realty Office Site

This site is a 0.18-acre corner-lot parcel that is currently owned and used for office space by Carmel Realty. It has low lot coverage and scores well with a land-to-improvement ratio. It is a single-story structure that is surrounded on all sides by structures that are at least two stories tall. The site was previously used in the RHNA5 inventory.

Site 5: Pine Inn Parking Lot

This 0.18-acre site is the parking lot for the Pine Inn. The site is not attached or adjacent to the inn, it is a separate parcel across the street. As driving patterns and parking needs change, this site could be a future candidate for redredevelopment.

Site 6: Bruno's Market Site

This site is two adjacent parcels totaling over 0.53 acres under the same ownership. The site includes a parking lot that leads to low lot coverage. It also scores in the top tier for land-to-improvement ratio. It could be a potential redevelopment candidate.

Site 7: Three Garages Site

This site would be an assemblage of three equal sized parcels totaling 0.33 acres. Two of the parcels are under the same ownership, and one was previously used in the RHNA5 inventory. Existing uses include a site with parking and three attached garages, and a commercial building used for real estate sales. Combined the site scores in the top tier for land-to-improvement ratio and in the mid-tier for value per-square-foot.

Site 8: First Church of Christ Parking Lot

This site is a parking lot used by the First Church of Christ. It is three separate taxlots totaling 0.28 acres. Assessor's records have missing values for ownership on the two southern parcels but given its existing use we assume that all three parcels are owned by the Church. In 2020, the State of California passed AB1851[24], commonly referred to as the "yes in God's backyard" bill. This bill makes it easier for religious institutions to convert excess parking to affordable housing by prohibiting a local agency from requiring the replacement of religious-use parking spaces that a developer of a religious institution affiliated housing development project proposes to eliminate as part of that housing development project. Redevelopment of the site would require a zone change.

Site 9: Misc. City-Owned Sites (Not Mapped)

The City owns a series of miscellaneous small vacant sites in the R-1 zone. These sites are legacy right-of-way that were not developed for streets. Some of these sites may have development potential. However, our site visit identified that barriers were common, including mature trees, topography, and use for primary access for existing homes.

[24] California Assembly Bill. 2020. "Religious institution affiliated housing development projects: parking requirements." 2019-2020 Regular Session. AB 1851. (See https://openstates.org/ca/bills/20192020/AB1851/)

Site 10: Red Cross Site

This site is two adjacent parcels owned and used by the American Red Cross. Collectively the site is 0.18 acres. Because the site is owned by a non-profit organization it does not have Assessor's values to calculate redevelopment metrics. However, site inspection confirms a low intensity use. Because the owner is a mission-driven organization, it's possible they may be a willing partner if they can find an alternative for their current operations.

Site 11: Café Carmel Site (Representing ALL single-story downtown buildings)

All single-story downtown buildings can be explored as opportunities for densification. Site orientation, existing and surrounding uses, and access are contributing factors to feasibility. The Café Carmel site pictured is one example of a single-story commercial property with two-story building on either side. The Café Carmel site specifically scores in the top tier for land-to-improvement ratio and has a land value around $100 per-square-foot. The site was previously used in the RHNA5 inventory.

Site 12: Wells Fargo Site

This site is two adjacent parcels comprised of the existing Wells Fargo building and associated parking lot. Combined the site is 0.38 acres. The site was identified as a candidate site in the RHNA5 Housing Element inventory. It scores in the top tier for land-to-improvement ratio. It is owned by an institutional entity (Wells Fargo). However, conversations with City staff indicate that it could be a candidate for inclusion as a historic property which would complicate redevelopment.

Site 13: Esperanza 7th and Dolores Site

This site is three adjacent parcels owned by Esperanza Carmel. The site totals roughly 0.30 acres. Esperanza has a development proposal on the site for eight market rate apartment units.

Site 14: 7th and Mission Site

This 0.18-acre site currently accommodates a clothing boutique in a single-story commercial building. Half of the site is comprised of a parking lot, which leads to low lot coverage and a land-to-improvement ratio above 1.5. However, it's value per-square-foot is high at nearly $500 per-square-foot, making acquisition of the property less likely.

Site 15: Carmel Foundation Site

The Carmel Foundation is the only provider of deed-restricted affordable housing in Carmel. Their administrative offices include four parcels totaling 0.62 acres. This site does not score high on land-to-improvement ratio but scores in the top tier of value per-square-foot. This site is being considered as a candidate because the Carmel Foundation is a mission-driven organization and interviews with leadership indicated that if they can accommodate their administrative functions off-site, they would consider redeveloping their property for affordable housing. Redeveloping this site would require rezoning.

Site 16: Carmel Presbyterian Site

This site is five adjacent parcels totaling almost 1.1 acres. Over a third of the site is a parking lot. See previous comments about AB1851. The site is outside of the commercial core and would require a zone change to facilitate redevelopment.

Site 17: 5th and Junipero Site

This is a corner lot site totaling just under 0.20 acres. The existing use is a parking lot and single-story commercial building. The site was included in the RHNA5 inventory. It scores in the mid-tier for both redevelopment metrics.

Housing Capacity Opportunities

Based on our review of market conditions, the character of existing development, and potential needs in the community, we see opportunities to add housing capacity in the following ways:

Promote Accessory Dwelling Units

Accessory dwelling units are commonly built as additional structures on lots with an existing home or are created through garage conversions. Lots that are conducive to accommodating ADUs have common characteristics including larger lot sizes, detached garages, and low lot coverage ratios. In Carmel over 87 percent of parcels are zoned for single-family residential uses (R-1), totaling nearly 2,900 lots. Carmel has also had growing interest in ADU development, receiving 13 applications for ADUs in 2021, up from 8 in 2020.

Infill Capacity

There are several sites, including City-owned properties, where infill could be possible. Development of these sites would require careful consideration of existing adjacent uses. Depending on the scale of the site, this redevelopment could be small-scale plex (duplex, triplex, quadplex) infill or relatively large-scale development. The City should consider amendments to development standards and design guidelines to facilitate achieving the maximum allowed densities. This would result in a greater likelihood of development feasibility for low-to-mid-rise multifamily development forms ranging from three to four stories.

Encourage adding residential units above commercial uses

Carmel's business district has many properties that are single-story low-intensity commercial uses. Some of these properties may be candidates to add an additional story of housing above the existing commercial. There is existing and recent development precedent that this densification is feasible, even for historic properties. The best candidates would be properties where the scale of adjacent properties is two-stories or greater.

Full Redevelopment

There may be opportunities in the commercial district where the value of housing may be higher than the existing commercial use. These sites would be candidates for razing the existing structure and building maximum feasible density. To be feasible the scale of development would have to maximize the development potential of the site through larger massing and maximum height.

Recommended Actions and Potential Incentives

Based on the preceding analysis, we offer the following recommendations for further consideration as the City progresses to an update of its Housing Element.

Explore changes to development standards. Our review of Carmel's zoning code found that overly restrictive development standards, such as the two-story heigh limit are not likely to facilitate maximum allowed densities. The City should explore options to remove these barriers consistent with the findings above.

Adopt objective design standards. Local developers indicate that the review and approval process in Carmel is overly restrictive. Senate Bill 35 and the Housing Accountability Act also require the use of objective standards. The City's code currently includes subjective standards. The City should analyze its current code language and develop recommendations for objective criteria and opportunities for a streamlined review process.

Create an accessory dwelling unit program. An accessory dwelling unit program could range broadly from creating promotional materials and informational outreach to an aggressive program that could project subsidies, development of pre-approved plans, assisting with allocating water credits (for deed-restricted units only), and technical assistance with planning and building staff navigating the planning and permitting process for property owners.

Create a preservation and monitoring program. The City should take action to understand its inventory of existing deed-restricted units and understand the risk of them converting to market rate.

Consider expanding the R-C and/or R-4 zone. Our analysis identified areas south and west of the commercial core that have opportunity sites and/or concentrations of parcels that could be candidates for redevelopment based on common metrics. The City should explore rezoning opportunities in these areas.

Inventory and incentivize properties with opportunities for densification. The City should consider at a minimum creating an inventory of single-story commercial properties with opportunities for densification and conducting property owner outreach. Other alternatives would be to establish flexible development standards like parking waivers and height limit adjustments, or to assist with water credits.

Explore solutions to water credit barriers to development. The water supply conditions on the Monterey Peninsula are a significant barrier to development. To add units to an existing structure or develop/redevelop a property, a developer must obtain water credits to accommodate the net change in fixtures. However, there are a finite number of credits available and no secondary market for transfer. To accommodate future development, the City should play an active role in regional efforts to improve access to water resources and water credits and facilitate prioritizing water credits for affordable housing.