



# RENTAL HOUSING IMPACT FEE AND NEXUS STUDY

Planning Commission Study Session  
July 22, 2013



# Agenda



- Context
- Nexus Study
- Public Input
- Options
- Next Steps

# Context of Nexus Study

- Sunnyvale's 30+ Years of Comprehensive Housing Programs
- Trends
- Development Environment
- Legal Context



# Ongoing Housing Efforts

- ⦿ Homebuyer Programs
- ⦿ Home Improvement
- ⦿ Rental Programs
- ⦿ Homelessness Prevention & Recovery
- ⦿ Capital Projects: New construction, acquisition, rehabilitation



# Housing-Supportive Policies

- ◉ Density Bonus
- ◉ Flexible & Mixed-Use Zoning
- ◉ Station Area Plans & Priority Development Areas
- ◉ Certified Housing Element & Adequate Sites
- ◉ Nationally-Recognized Streamlined Permitting



# Trends: Funding

- ◎ Federal CDBG & HOME Grants
  - < \$1M / year and decreasing
- ◎ Linkage Fees (“HMF”)
  - \$0 - \$7M / Year, highly variable based on local Class A office development trends
- ◎ BMR In-Lieu Fees
  - \$0 - \$100K / Year, variable, increasing due to recent code changes (fractional unit fees)



# Trends: Affordability

## ● Housing Costs

Apt. rents increased 12% in 2012

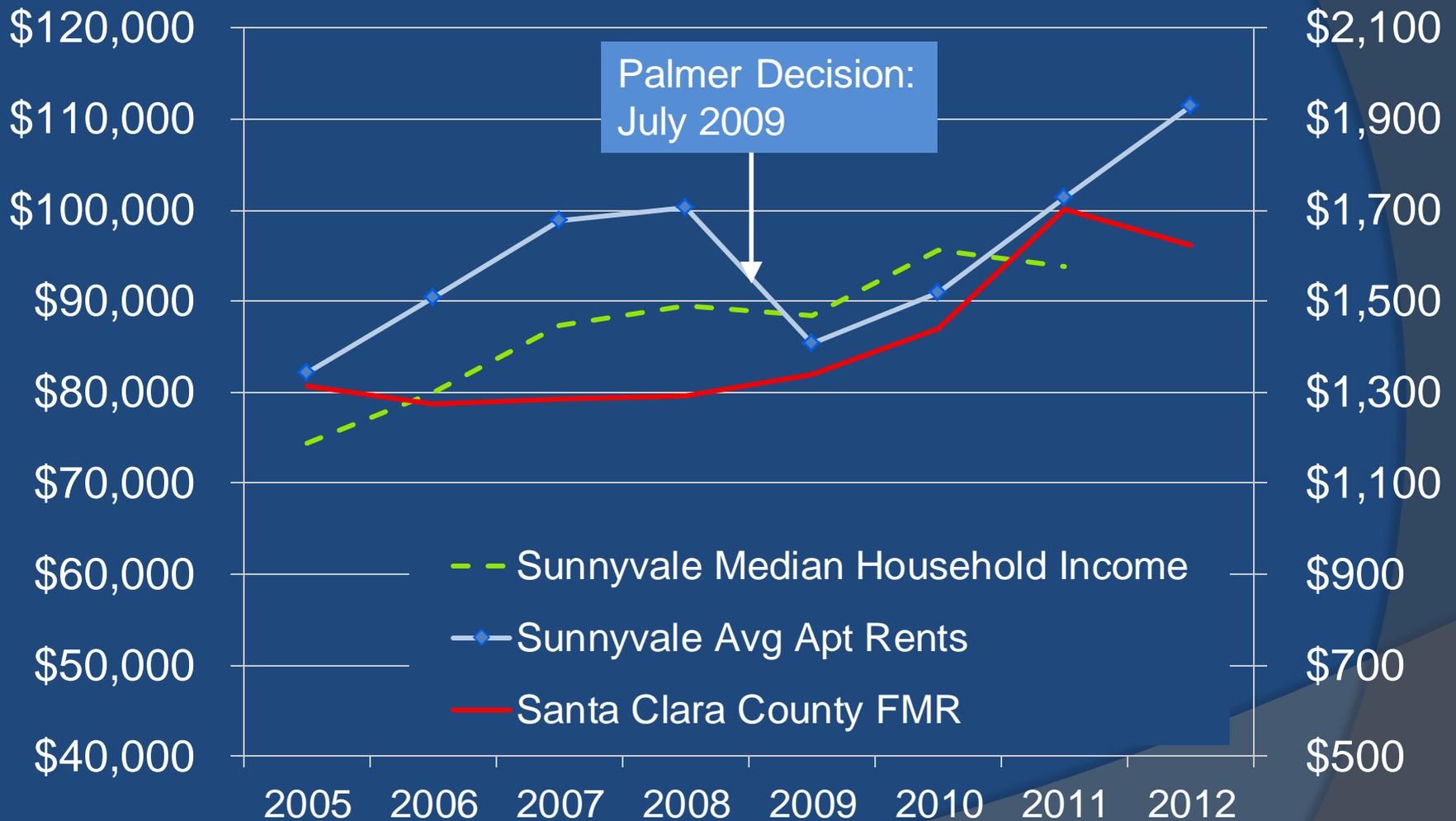


## ● Affordability

Avg Sunnyvale Apt Rent:  
**\$1,927 in Q4 2012** *RealFacts*



# Recent Local Rent Trends



Sources: Sunnyvale Vacancy & Rent Surveys, HUD User FMR

# Development Environment

## Fees for 97-unit apartment project

- Park In-Lieu Fees: \$1.5 Million
- Sense of Place Fees: \$100,000
- Traffic Impact Fees: \$124,000
- Building Permit Fees: \$375,000



Land Costs: \$3-5 Million / acre

Permit Issuances UP

# Legal Context



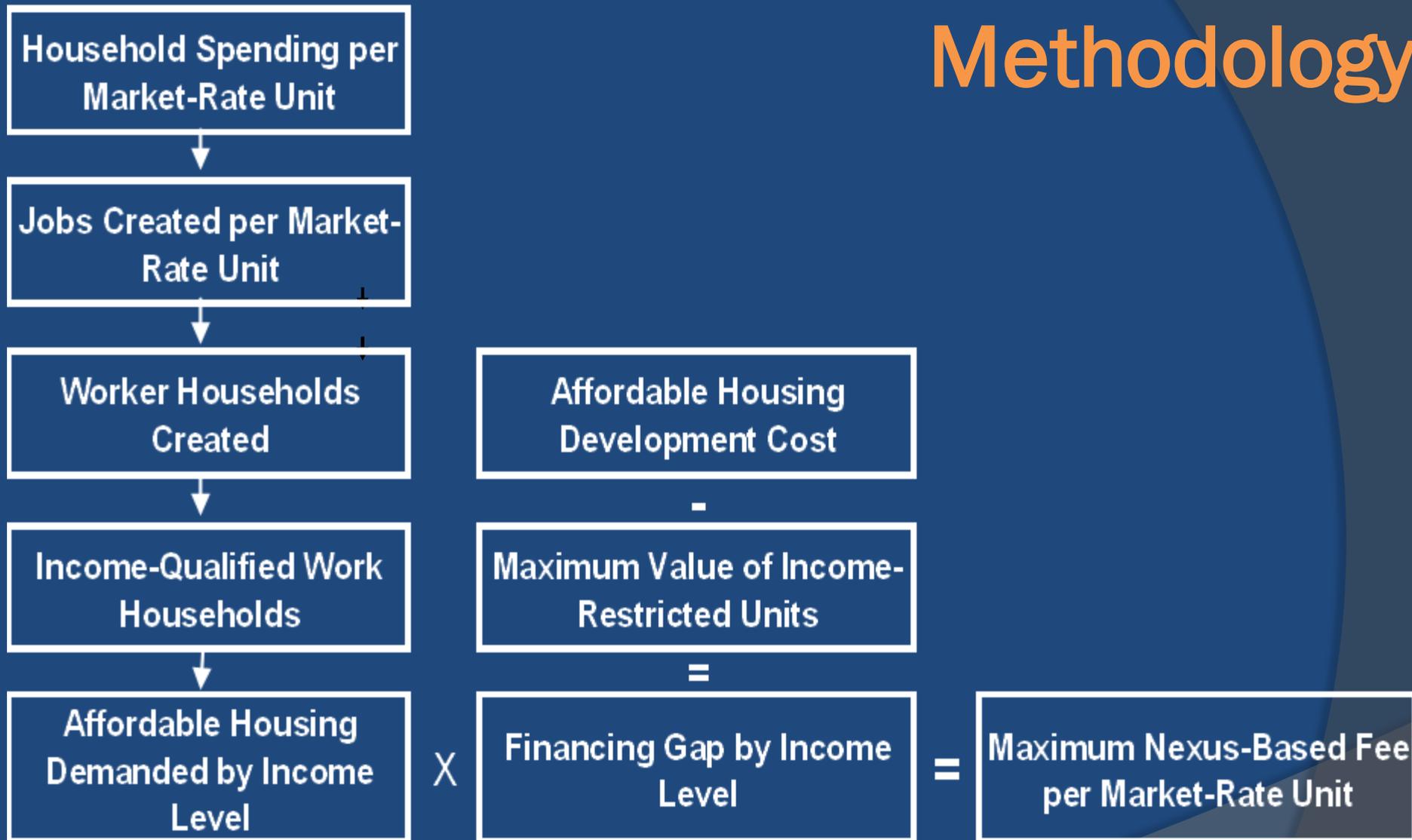
- ◎ 2009 Palmer v. L.A. Decision Strikes Down Inclusionary Rental Programs
- ◎ Numerous challenges to ownership and/or rental inclusionary programs
  - Sunnyvale, Palo Alto, San Jose, Mountain View programs challenged between 2008-2013
- ◎ State Dissolves Redevelopment Agencies

# Nexus Study

- ◎ Council Action on July 31, 2012

“Direct staff to prepare a nexus study to determine the nexus between construction of market-rate rental housing and the demand for affordable rental housing.”

# Methodology



\*Figure format based on A.F. Cray's "The Use of Residential Nexus Analysis in Support of California's Inclusionary Housing Ordinances: A Critical Evaluation"; November 2011

# Nexus Study Observations

- ◎ Most jobs created through new resident spending are in lower-wage occupations:
  - Majority in retail and personal / household services
  - Average annual wages are less than \$35,000

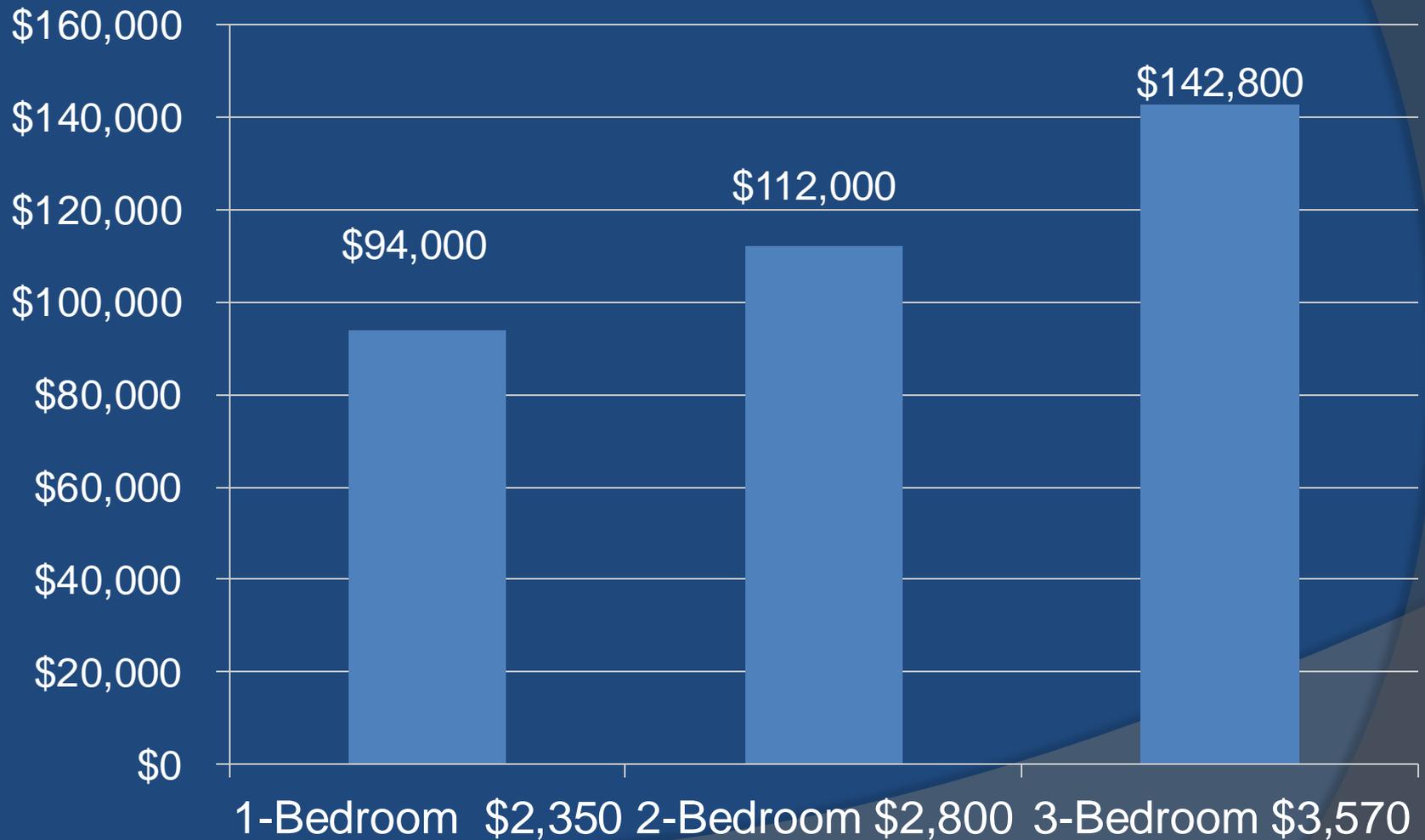
# Nexus Study Observations

Rents in Newer Apartments are NOT Affordable to Lower Income Households

| # of Bedrooms | Low Income Limit (80% AMI) | Rents Affordable to Low Income Tenants | Average Rents in Recent Projects [1] |
|---------------|----------------------------|--|--------------------------------------|
| 1             | \$67,900                   | \$1,698                                | \$2,350                              |
| 2             | \$76,400                   | \$1,910                                | \$2,800                              |
| 3             | \$84,900                   | \$2,123                                | \$3,570                              |

[1] February 2013 rents for Cherry Orchard, Tamarind Square, Via and Villa Del Sol

# Annual Income Needed to Rent Newer Sunnyvale Market-Rate Apartment



# Nexus Study Observations

Subsidies needed to build apartments affordable to lower-income households

| Development Assumptions      | 42 units per acre |
|------------------------------|-------------------|
| Costs                        |                   |
| Land/Acre                    | \$3,000,000       |
| Land/Unit                    | \$71,429          |
| Construction, Soft Costs     | \$318,850         |
| Total Cost/Unit              | \$390,279         |
| Total Supportable Unit Value | \$278,182         |
| <b>Subsidy Required</b>      | <b>\$112,097</b>  |

Data taken from Table 3 of the EPS Nexus Study

# Nexus Study Results

## Maximum Supportable Nexus-Based Housing Fees or Unit Requirements In-Lieu of Fees

*City of Sunnyvale Rental Housing Fee, EPS #21123*

| Apartment Size | Maximum Nexus-Based Fee |             | Unit Requirement by Income Level |      |              |
|----------------|-------------------------|-------------|----------------------------------|------|--------------|
|                | Fee per Unit            | Fee /SF [1] | Very Low                         | Low  | Total        |
| Studio         | \$30,324                | <b>\$51</b> | 10.3%                            | 2.4% | <b>12.7%</b> |
| 1 Bedroom      | \$36,460                | <b>\$47</b> | 12.5%                            | 2.6% | <b>15.1%</b> |
| 2 Bedroom      | \$44,409                | <b>\$40</b> | 15.5%                            | 2.5% | <b>18.0%</b> |
| 3 Bedroom      | \$58,810                | <b>\$42</b> | 20.5%                            | 3.4% | <b>23.9%</b> |

*[1] Fee/Sq is calculated by dividing the maximum fee per unit by average square footage of various types, as shown on Table 4. Source: Economics and Planning Systems, Inc.*

# Rental Impact Fees in Nearby Cities

| City   | Fee Status/Amount                                 |
|--|---|
| <b>Cupertino</b>   | \$2.81 per SF; considering conducting a new study |
| <b>Mountain View</b>   | \$10 per SF                                       |
| <b>San Jose</b>  | Currently conducting a nexus study                |
| <b>Palo Alto, Campbell, Los Gatos</b>                              | No fee; considering studying in the future        |
| <b>Saratoga, Los Altos Hills, Los Altos, Santa Clara, Milpitas</b> | No fee yet  |

# Other Cities with Rental Fees

| City                | Fee Status/Amount                     |
|---------------------|---------------------------------------|
| <b>Berkeley</b>     | \$20,000 per unit                     |
| <b>San Carlos</b>   | \$25+ per SF for projects of 6+ units |
| <b>Fremont</b>      | \$19.50 per SF                        |
| <b>Walnut Creek</b> | \$15 per SF                           |

# Options Considered

- Fee of \$10-20 per SF on new market-rate rental units
- Option to provide affordable units in lieu of fee
- Fee sunsets if *Palmer* decision reversed through legislation
- Payable prior to building permit issuance or at occupancy

# Projects Funded in FY 2013-14

- 2 Habitat homes:
  - \$880,000 bridge, \$232,000 perm
- SV Housing Trust: \$250,000
- 117 New Units @ Armory:
  - \$8.1M in HMF + \$2.25M HOME
- Homestead Apts Rehab:
  - 211 Units + solar for \$5M

# Outreach Meeting Input



- Use average of all market-rate rents, not just a sample of Class A rentals
- New businesses are also driving service job creation, not just new residents
- Base fees just on living space, not common areas/parking
- Collect fees at occupancy, not issuance of building permits.

# Outreach Meeting Input



- Use fees to rehabilitate older apartment units rather than making new, Class A units affordable
- What percentage of affordable units would be required to eliminate the fee for a project?
- Place excise tax on new development in conjunction with residential parcel tax
- Should be alternatives to paying fees.
- Build more higher-density housing to make rents more affordable.

# Parcel Tax Alternative

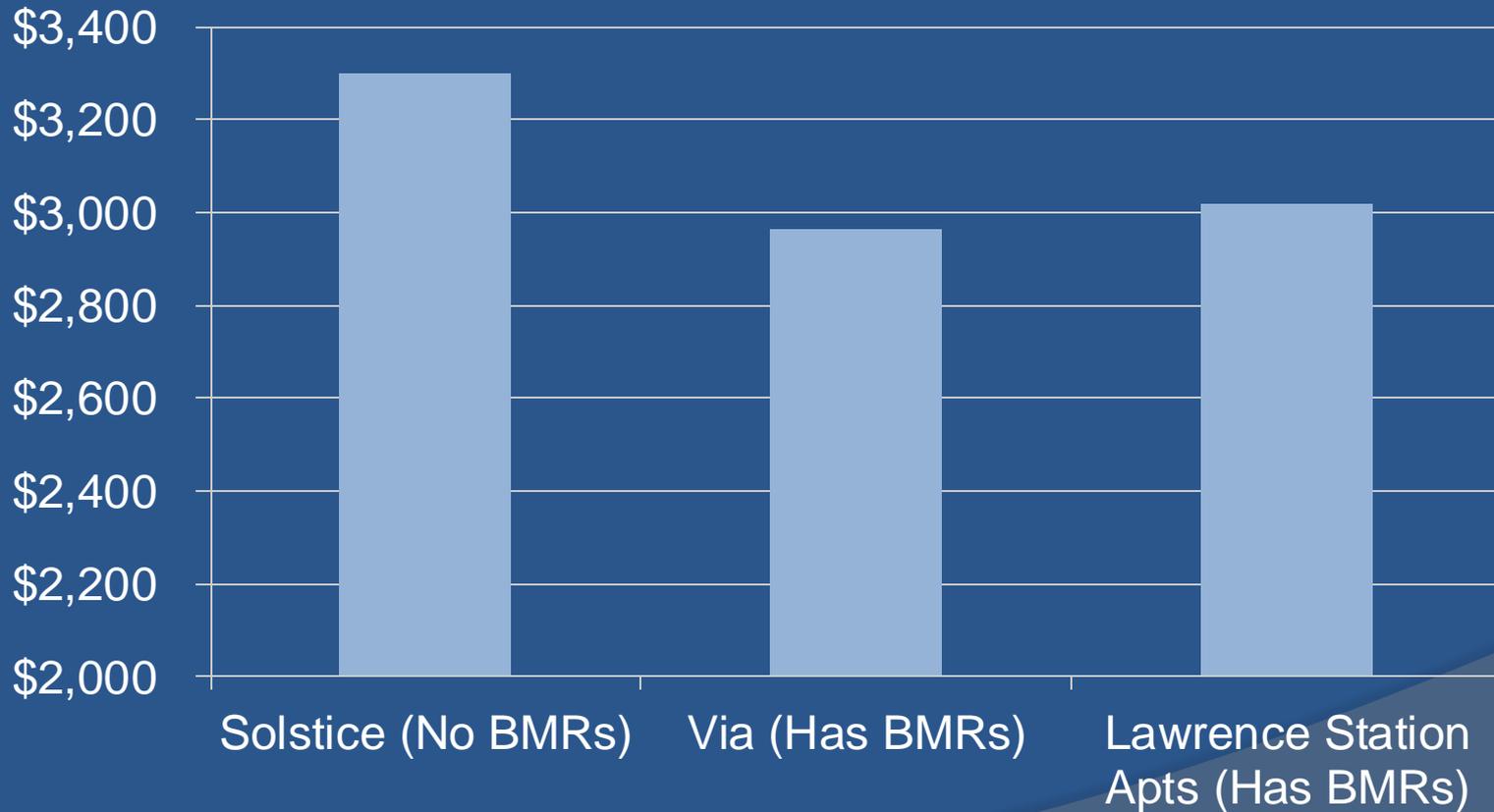
proposed by BIA & TCAA

- Flat fee by parcel or by housing unit
- Assessment based on a fee per square foot
- Shares the burden for affordable housing among local residents and developers



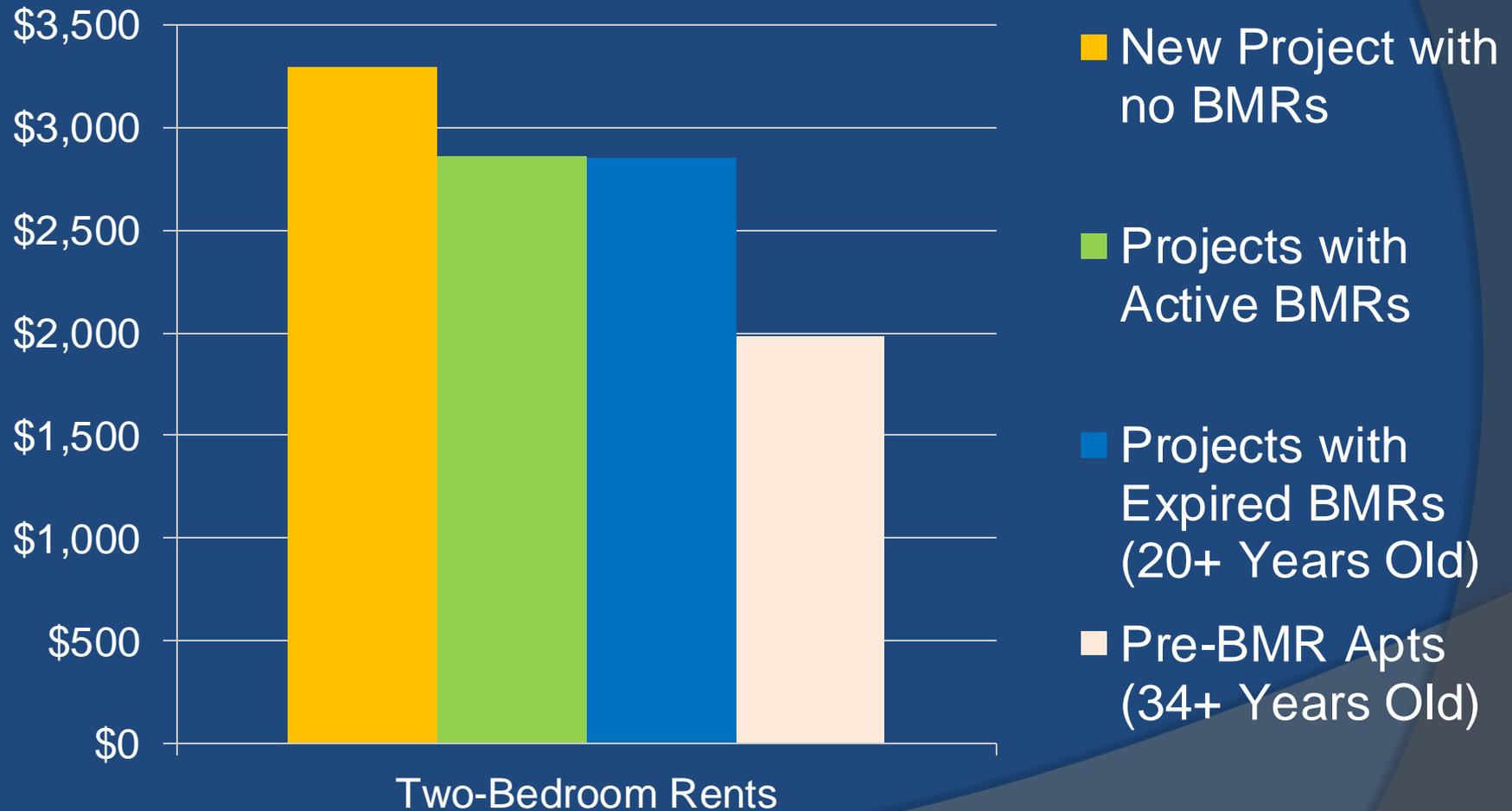
# Pre- and Post-Palmer Project Rents

**Current Market Rents for  
Smallest 2-Bedroom Units**



# Average Sunnyvale 2-BR Rents

July 2013



# Next Steps



- August 13, 2013:  
City Council Study Session
- Additional Meeting Dates  
To Be Determined

# Contact Information

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